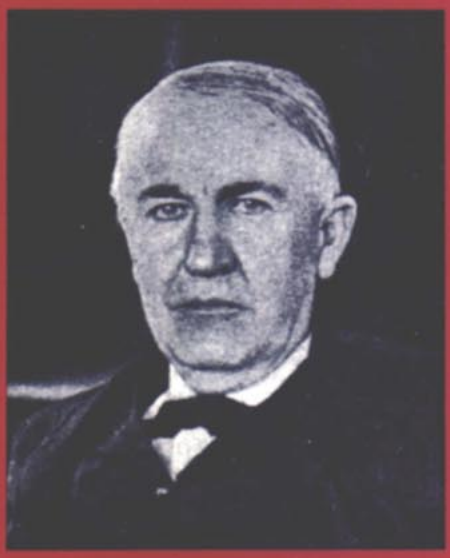
THE FREEMAN

IDEAS ON LIBERTY



The Education of Thomas Edison

Should Star Trek Be Regulated as a Monopoly?

E Pluribus Unum

Business-Government Collusion

FEBRUARY 1995

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Order your copy of FEE's nationally acclaimed bestseller today!

"A tremendous book. . . demolishes decades of liberal, crime-coddling dogma."
—Richard Thompson, Prosecuting Attorney,
Oakland County, Michigan

CRIMINAL JUSTICE? THE LEGAL SYSTEM VERSUS INDIVIDUAL RESPONSIBILITY

Edited by
Robert James Bidinotto

Liberal theories about the causes of crime have virtually destroyed our criminal justice system, and turned our once-great cities into desolate battlefields. In response, FEE is proud to announce a new book—already being hailed by law enforcement experts and crime victims as the definitive modern work on the subject of crime and punishment.

"America's law enforcement officers—and crime victims—owe a debt of gratitude to Mr. Bidinotto for documenting in one book how and why our justice system is broken—and how to fix it."
—James J. Fotis, Executive Director
Law Enforcement Alliance of America

Criminal Justice? is a powerhouse collection of essays by 14 distinguished scholars, justice professionals, and journalists. They explode decades of excuse-making about the "root causes" of criminal behavior—and offer tough, no-nonsense reforms for our lenient criminal justice system.

"Robert Bidinotto has done it. He's managed to assemble a group of scholarly, yet immensely readable, articles that completely demolish a half century of half-baked theories about the causes of and society's response to crime. You're going to find out that the average citizen was right all along and the 'experts' deathly wrong."
—Walter E. Williams
John M. Olin Distinguished Professor of Economics
George Mason University

Edited by award-winning *Reader's Digest* investigative journalist and *Freeman* columnist Robert James Bidinotto, *Criminal Justice?* is one of the most important and unique titles FEE has ever published. Sure to be a classic, it is essential reading for every citizen seeking ways to stop the bloodshed on our streets.

"Persuasive . . . a compelling message."
—Dominic S. Amato, Circuit Judge,
Milwaukee, Wisconsin

320 pages **$19.95 paperbound**
$29.95 clothbound

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS

FEBRUARY
1995
VOL. 45
NO. 2

68 **Should *Star Trek* Be Regulated as a Monopoly?** *by Gary North*
The marketing of *Star Trek* from an economic point of view.

73 **The Education of Thomas Edison** *by Jim Powell*
How a genius's love of learning flourished without benefit of schooling.

77 ***E Pluribus Unum*** *by Ralph A. Raimi*
Unity in our common culture.

81 **Ideas and Consequences—Dissatisfaction Guaranteed and No Money Back** *by Lawrence W. Reed*
Some thoughts on school prayer.

83 **Business-Government Collusion** *by Eric-Charles Banfield*
"Pro-business" ideas are all too often inconsistent with "free market" ideas.

90 **John C. Calhoun: Champion of Sound Economics** *by William J. Watkins, Jr.*
Reconsidering the wisdom of an often-overlooked statesman.

93 **Land Control as Mind Control** *by John Chodes*
The federal government's policies concerning supposed Southern racism at the end of the Civil War directly relate to contemporary infringements on property rights.

103 **A Matter of Principle: To Educate—Or Legislate?** *by Robert James Bidinotto*
We still have much persuading to do before citizens accept our ultimate vision of a totally free society.

105 **Self-Control, Not Gun Control** *by Catherine Farmer*
Preserving Second Amendment rights.

107 **The Last Experiment** *by Joseph E. Petta*
Prospects for economic freedom in Alaska.

111 **The Real Reason Welfare Should End** *by Michael Levin*
Forced philanthropy is a moral outrage.

112 **The Population Bomb: Exploding the Myth** *by Felix Livingston*
Solving the real population problem.

114 **Pro Sports on the Dole** *by Raymond J. Keating*
Government subsidies at taxpayers' expense.

119 **Religion's Modern Witch Hunt** *by Charles Dickson*
Churches versus major American corporations.

121 **Full Employment—A Lesson from the Deserts of Saudi Arabia** *by Keith Wade*
The true minimum wage is nothing at all.

124 **Ending the "Crayfish Syndrome"** *by Ralph R. Reiland*
Common sense solutions from rural Mississippi.

126 **The Educational Octopus** *by Mark J. Perry*
Public schools, like all socialist undertakings, are doomed to eventual failure.

130 **Economics on Trial: Who's Right About Hayek?** *by Mark Skousen*
Austrians versus monetarists.

132 **Book Reviews**
Ralph Raico reviews *The Soviet Tragedy: A History of Socialism in Russia, 1917-1991* by Martin Malia and *Russia Under the Bolshevik Regime* by Richard Pipes; *Classics in Austrian Economics, 3 volumes* edited by Israel M. Kirzner, reviewed by Peter J. Boettke; *The Index of Leading Cultural Indicators: Facts and Figures on the State of American Society* by William J. Bennett, reviewed by Wesley Allen Riddle.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591–7230 FAX (914) 591–8910

President: Hans F. Sennholz
Managing Editor: Beth A. Hoffman
Guest Editor: Edmund A. Opitz

Editor Emeritus
Paul L. Poirot
Lewisburg, Pennsylvania

Book Review Editor
Robert Batemarco
Marymount College, Tarrytown, New York

Associate Editors
John Chamberlain
Cheshire, Connecticut
Bettina Bien Greaves
Resident Scholar, FEE
Edmund A. Opitz
Chatham, Massachusetts

Columnists
Robert James Bidinotto
Staff Writer, Reader's Digest
Lawrence W. Reed
Mackinac Center for Public Policy
Midland, Michigan
Mark Skousen
Rollins College, Winter Park, Florida

Contributing Editors
Charles W. Baird
California State University, Hayward
Doug Bandow
Cato Institute, Washington, D.C.
E. Calvin Beisner
Covenant College, Chattanooga, Tennessee
Peter J. Boettke
New York University
Donald J. Boudreaux
Clemson University
Clarence B. Carson
American Textbook Committee
Wadley, Alabama
Thomas J. DiLorenzo
Loyola College, Baltimore, Maryland
Joseph S. Fulda
New York, New York
Roger W. Garrison
Auburn University
Robert Higgs
The Independent Institute, Oakland, California
John Hospers
University of Southern California
Los Angeles, California
Tibor R. Machan
Auburn University
Ronald Nash
Reformed Theological Seminary
Maitland, Florida
James L. Payne
Sandpoint, Idaho
William H. Peterson
Washington, D.C.
Jane S. Shaw
PERC, Bozeman, Montana
Richard H. Timberlake
University of Georgia
Lawrence H. White
University of Georgia

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

Copyright © 1995 by The Foundation for Economic Education. Permission is granted to reprint any article in this issue, provided appropriate credit is given and two copies of the reprinted material are sent to The Foundation.

The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $30.00 or more receive a subscription to *The Freeman*. Student subscriptions are $10.00 for the nine-month academic year; $5.00 per semester. Additional copies of single issues of *The Freeman* are $2.00. For foreign delivery, a donation of $40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

PERSPECTIVE

FEE in Eastern Europe

In the autumn of 1994, FEE's President, Dr. Hans Sennholz, sent me to Eastern Europe on behalf of FEE. I visited Poland, Lithuania, Russia, Romania, Hungary, and the Czech Republic. These countries of Eastern Europe had been devastated and impoverished for decades by the Communist regime. For 45 years the inhabitants had lived under the control of the U.S.S.R. Most of the people have forgotten what it means to be individually responsible. They expect government to make decisions for them, to provide them with housing, jobs, and medical care. Since the dramatic rejection of Communism in 1989, however, their people have been trying to decide how best to transform their old command economies into private property orders. That is why Dr. Sennholz sent me to Eastern Europe; he wanted me to tell them about the Foundation, *The Freeman*, and FEE's other publications so as to give them some help in learning about private property, individual rights, savings, investment, and entrepreneurship.

My entree in each country was through individuals who were already familiar with the Foundation and who could arrange for me to meet and speak with like-minded persons. I met informally with small groups and I gave lectures. I spoke to some groups in English, to others sentence-by-sentence through interpreters. I talked about a broad range of subjects—what is necessary for economic development, what people living in the formerly Communist countries *could* learn from the United States, and what they *should not* learn from the United States. I talked about the free market, about government regulations, and inflation. And at two colleges I spoke to classes on the history of economic thought about the Austrian "school" of economics and Ludwig von Mises.

The people in the Eastern European countries I visited have many of the same complaints as we do in the United States. They are saddled with high taxes, burdensome

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

controls, costly government pension schemes, and central banks that consider inflation and/or credit expansion the proper way to meet the government's expenses. The message I tried to present in the countries of Eastern Europe I visited was that they should avoid copying the big government spending programs that have led to these consequences in the United States. On the other hand, they should do their best to limit the role of government and adopt the principles of individual freedom and personal responsibility which fostered economic development and technological improvement here in the United States.

The people of Eastern Europe should come to recognize the importance of protecting private property and private voluntary contracts. They should create an economic climate in which people will feel relatively secure so that they will be willing to work, not only to produce enough to survive, but to produce more, so as to save and invest. Generally speaking, people in the United States have felt relatively confident that their property would be protected and that they would be free to use the products of their efforts as they chose. Thus, they were encouraged to be industrious. Entrepreneurs dared to innovate, experiment, and take risks in the hope of profit. The economic and technological development of the United States has been the result of decades of accumulated savings and investments by many persons and of countless enterprises undertaken by many entrepreneurs.

Now that these Eastern European countries are on their own, they have a chance for economic recovery. It is essential that the people come to recognize the importance of protecting private property. Individuals who own property can become independent, responsible for themselves and their families, and need not rely on government to supply their needs. The people must ask their governments to replace the old Communist controls and regulations with a legal and judicial system recognizing and protecting private property and contracts. Individuals should be free otherwise to live as they wish, to pursue their own peaceful ends and to cooperate and trade voluntarily with others.

The governments of the countries of the old Communist bloc have removed some of the old interferences and controls on economic activity, and government enterprises are being partially denationalized. These changes have opened up some opportunities which individuals have been pursuing. Some entrepreneurs are daring to undertake new ventures. Small private shops now line the streets of many cities. Fresh produce is regularly brought to city markets from far off places. More trades are taking place across national borders and foreigners are beginning to invest in these countries. Billboards advertise foreign products, even cat and dog food. And TV satellite dishes may be seen anchored on the roofs and balconies of many high-rise apartments. As more imports appear on the market, workers will have more incentive to produce, and producers will have to enhance the quality of their exports, so as to compete in world markets. Yet much remains to be done, primarily in changing the attitudes of the people. Few realize what it means to be fully responsible for themselves and their families; most of them still expect government to take care of their basic needs. Nevertheless, if the countries of Eastern Europe can continue to move toward creating an economic climate that fosters individual initiative they will be on the road to economic recovery.

—Bettina Bien Greaves

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Should *Star Trek* Be Regulated as a Monopoly?

by Gary North

The announcement in 1993 that *Star Trek: The Next Generation* would have only one more season of new shows was the equivalent of a photon torpedo blast into the lives of millions of fans. Well, maybe it was only a phaser set on "stun," but the news was not well received. Even Jonathan Frakes, the actor who plays William Riker, the second in command on *The Enterprise*, complained in a televised interview that he did not understand why a successful series was being canceled.

The answer is clear: because it was not merely a successful series. It was *the* successful dramatic TV series of all time, a show possessing what has been described as a cult following—the largest entertainment cult on earth. For almost three decades, *Star Trek* fans have invested money, time, and imagination in a fantasy world created on-screen. The three-part entrepreneurial question that the show's producers face is this: How much money? How much time? How large a screen?

The show was costing a million dollars per weekly broadcast to produce: the highest in television. But this investment paid off very well. Syndication is bringing in millions of dollars from earlier shows. This probably will not change soon, with or without new segments. Millions of fans watch every segment of over and over. This has been true since the early 1970s. Nightly reruns still draw large audiences for both crews of *The Enterprise*. This stream of income appears to be as endless as the *I Love Lucy* reruns. The questions facing the producers were these: (1) How much additional net income can this product line generate if we produce two dozen new segments? (2) How much net income can it generate if we produce a major movie? The answer to the first question appeared to be "marginal." The answer to the second question appeared to be "enormous."

The early fans of the original *Star Trek* series were not numerous enough to sustain the show's ratings. *Star Trek* became a huge success only after it was canceled: a rerun and local TV station syndication phenomenon. This made it unique in television history. Then came the 1977 movie. Its script was not noticeably superior to one of the original shows. In fact, it was suspiciously similar to one of those original shows: "Nomad." But it made millions of dollars for the investors. Five more movies followed, stretching for over a decade. Toward the end of the movie releases, *Star Trek: The Next Generation* had become the most successful syndicated show on television. The original *Star Trek* series was also doing well in syndication. Like miners mining the mother lode, every time the producers started a new tunnel, they hit paydirt.

This experience sent a loud message to the producers: "A defunct series in syndi-

Dr. North is president of The Institute for Christian Economics in Tyler, Texas.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cation plus an occasional movie will make us even richer." Gene Roddenbery, the show's creator, was dead. He was no longer present to argue for keeping the TV series alive. So, the free market took over. That is to say, the desires of paying consumers took over, but not the desires of non-paying consumers. Therein lies the difference in marketing strategies.

The Message of the Market

The free market sends information to enterprising entrepreneurs whose task it is to forecast consumer demand in the unknown economic future. This information is sent in the form of price signals. These signals are evaluated in a very specific manner: profit and loss. Consumers register their decisions in the form of money. Sometimes this message is sent directly: "I'll take one of those, please. Here is my money." In non-pay TV, the message is sent indirectly by middlemen acting on behalf of consumers: "I'll rent advertising time from you in the hope that consumers will buy something from me as a result." But the consumer is finally sovereign. Either he spends money or he doesn't.

I was a reliable consumer of *Star Trek: The Next Generation*, beginning several years after the show was launched into the airwaves. It was the only TV show I watched every week. (I now watch none on a weekly basis.) But I did not watch it directly. I had my teenage son record it for me on Saturday night, blipping out the commercials. Then my wife and I and the other children would watch the tape on some other night. I was, in the language of the economist, a free rider. I did not buy anything from a seller just because he advertised during the *Star Trek* hour. No commercial message ever got through to me, except when my son was not paying careful attention. He became very skilled at operating the pause button.

Did I attend the new *Star Trek* movie? Of course, and so did my family. The years of investments made by the producers, funded weekly by the advertisers, at long last paid off in my case. I was no longer a free rider. I paid for my 90-minute ride on *The Enterprise*.

The market sent a signal to the producers: there are a lot of people just like I am out there. They paid for the privilege of entering into the fantasy world of *Star Trek*. The pay was direct: "Ticket, please."

After that, millions more of us will rent it in local video stores. There will also be income from cable TV and network TV and Ted Turner's TBS TV. The producers saw the potential.

The fans no doubt feel cheated. They want their two dozen new segments a year. They sit there—millions of thumbs on millions of "pause" buttons—and say: "Take us for a ride on *The Enterprise*." The producers finally figured out that the fans were taking them for a ride.

The producers believed that the market was ready to reward them for spending less than what it would cost to produce two dozen segments for TV. Instead of paying week by week, they spent a year's budget on one extravaganza. They believed that we, the faithful consumers of *Star Trek* fantasies, would dig into our wallets and reward them for bringing one story to us on a large screen rather than dozens of stories on a small screen. They were correct.

We consumers say that we want two dozen segments a year rather than one extravaganza every other year or even less frequently. That is what we say. But talk is cheap. Are we willing to put our money where our mouths are? How much money? If we were all willing to pay, say, $2.50 per TV segment, and if there were some readily available way to make this transaction each week, the producers might consider keeping the show on the air (or cable, or whatever). But the delivery system does not exist. *Star Trek* is unique. There is no other TV show with a market of fans—as in fanatics—that would predictably respond in this way. There is even some question in my mind about whether I would actually pay my weekly $2.50. In any case, we are talking about $2.50 per household. But the movie got $6 out of me, my wife, and also three of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

my four children. For many fans, multiply $6 by two. Or three. We will also rent it when it comes out on tape.

So, the reality is this: what *Star Trek* fans say they want is not what they are both willing and able to pay for. We are all free riders or would-be free riders to some degree. The producers have issued an announcement: "No more free new rides."

A Monopoly

One of the greatly feared and hated phenomena in modern life is the monopoly. The standard definition of *monopoly* is this: "A firm that restricts the output of goods or services in order to increase its revenues." It is feared and hated because consumers seem to be thwarted. Consumers receive less of what they say they want. The seller brings in more money, net, at a higher price per sale than he would have brought in had he met all the demand at a lower price per sale. He is, in the language of Marxism and other socialist traditions, an exploiter.

If we take this definition seriously, then *Star Trek* is surely a monopoly. Rather than producing and then renting two dozen new segments per year to local TV stations, the owners of the rights to the *Star Trek* product line are now going to produce only one movie every two or three years, which they will rent to movie theaters. Then they will rent it to cable TV stations. Then they will sell copies of the videotape. They will get *Star Trek* fans to pay again and again to see that one movie. By restricting production, they will bring in far more money. But if the standard definition of *monopoly* is correct, it should be clear that this can be accomplished only through the willful exploitation of the public, and a highly vulnerable public at that: people who show many of the elements of serious psychological dependence.

A good Marxist would know what to call the owners of the rights to *Star Trek*: "capitalist exploiters." Clearly, the state, as the legitimate voice of the proletariat, should confiscate these rights and begin to produce weekly broadcasts of *Star Trek* on a year-round basis.

This would be very expensive under present conditions. The main actors receive very high wages, since the show has been running for years. The featured actors' salaries rise each year. Also, what about residual payments to them for the reruns? There would be no residuals under true socialism. After all, the Marxist says, labor is the sole source of all value, and these actors have already contributed whatever value the show possesses. Residuals? This is clearly exploitation by the actors, who have also become capitalist exploiters.

But what if the actors should quit? Here socialists disagree with each other. Some would favor laws making it illegal for anyone to quit his job without permission from the state. This would include actors. Other socialists, influenced by capitalist concepts of supply and demand, would say that new actors should be hired by the national government's Department of Public Entertainment. Hire some minimum-wage, out-of-work English character actor to play Captain Picard. Just shave his head. Nobody will notice. Anyone can be dressed up as a Klingon. All the fans really care about is Lieutenant Worf's turtle-shell forehead. A computer synthesizer can produce a match of Michael Dorn's voice—after all, even he doesn't sound like that in real life. As for Jordie LaForge, the whole appeal of the character is that woman's hair gadget he wears over his eyes. Who needs LaVar Burton? The *Star Trek* characters are all stick figures anyway: the chocoholic, half-breed mind reader who never seems to know what the bad guys are really thinking; the twitching robot with the green contact lenses; the bearded first mate who seems to be an ulcer candidate; the bossy female physician who takes over every time anyone gets the sniffles. Who needs highly paid actors? Just hire new actors who can remember their lines. If they start demanding higher pay, replace them. The viewers don't care. Don't talk nonsense about the show's "chemistry." Television shows do not have chemistry. They have scripts, actors, and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

special effects. In the case of *Star Trek*, the proper order is special effects, scripts, and actors. What the show needs is scripts that conform to the theory of socialism. Actors are peripheral.

The question now arises: Should *Star Trek* fans set up a PAC (Political Action Committee) devoted to electing candidates who promise to compel the producers to deliver a minimum of two dozen shows per year? Such legislation is surely Constitutional. Perhaps it could be done under the interstate commerce clause, or maybe under "promote the general welfare." These are mere details. The Supreme Court can sort it all out later. The point is, *Star Trek: The Next Generation* is an exploitative monopoly, and it must be stopped by law.

Something sounds wrong with this analysis. The question is: What?

Consumer's Surplus

A seller who wants to sell many units of a particular item will price each unit at what he believes is the highest price consumers are willing to pay for all units he brings to market. The revenue-maximizing price is that price which empties the seller's inventory but leaves no consumer standing in line ready to buy. This is called a market-clearing price.

No matter what price he establishes, there will be some buyers who would have paid more for the item. To maximize his total revenue, he sets the price lower than what he could have received from a small percentage of buyers. These buyers who would have paid more receive a benefit. Economists call this benefit a consumer's surplus.

The producers of *Star Trek: The Next Generation* for many years have given millions of viewers a consumer's surplus. These viewers would have paid more, but they were not asked to pay more. I am clearly one such viewer. I paid nothing except my time in viewing—leisure, a rare form of income which the government does not tax—and the price of a cheap videotape (two shows per tape). My teenage son's time spent recording and blipping out commercials I receive at no additional marginal cost —one of the very few income streams I have generated so far from this particular investment in human capital (and now it has dried up): no more *Star Trek* segments.

The producers decided that they would no longer provide such an immense consumer's surplus. They have created enormous demand for their product line by means of offering millions of consumers a consumer's surplus for over two decades. We can best understand this as a form of advertising. Advertising expenses are not borne for their own sake. The goal of advertising is to sell more products. This is now what the producers of *Star Trek* intend to do.

Star Trek as Software

Star Trek: The Next Generation is properly described as a software product. The hardware is our TV sets. Software is what we run on our hardware. For example, when Sony bought CBS Music, financial journalists identified this as a move by Sony, a producer of hardware, to acquire a line of software. The big money is in software, not hardware, unless you are the Intel Corporation or Motorola.

In recent years, software products that are assumed to be capable of reaching a large market have been priced quite low: a hundred dollars for a program that in 1990 would have retailed for $495 ($235 through a mail-order firm). Software producers realize that the big money is made on the back end: money sent in by existing users who buy software upgrades. The marketing strategy is to gain the largest number of users, who hate to re-learn new software programs that perform similar tasks. The strategy is to create a huge market of users who do not want to switch. They become, as it were, psychologically dependent on the product. Very few software companies have achieved this.

Star Trek has accomplished this remarkable feat. The producers introduced their software at very low prices in 1968, but now the upgrades are going to be less frequent

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and more expensive than before: every other year instead of every week for half the year. Consumers received an enormous consumer's surplus for decades, but now the producers know that their software's "installed base of users"—software marketing terminology—is huge, that users are not going to switch, and that the weekly reruns will now serve as "shareware": free or nearly free introductory software that creates a market for the big-screen "upgrades."

The decision to produce *Star Trek* movies rather than weekly TV shows will probably turn out to be very profitable. The product line's installed base is enormous. Having created this installed base through a quarter century of either brilliant or very lucky marketing, the owners of the product line have decided to maximize their revenue by spending more money on a few major upgrades rather than spending smaller amounts of money on more frequent but marginal upgrades. For most TV shows, this marketing strategy would produce a gigantic loss, once. But *Star Trek: The Next Generation* is not like most TV shows.

Conclusion

The marketing of *Star Trek* is rational from an economic point of view. While it would be possible to denounce as monopolistic the decision of the owners to move from TV production to movie production, such an analysis does not ring true. Nevertheless, the decision does seem to conform to the standard definition of monopoly pricing: "Restricting the output of goods or services in order to increase revenues." But most people—even devoted fans—are unwilling to call the producers of *Star Trek* a bunch of exploiting monopolists. Why?

I suggest two reasons. First, when it comes to entertainment, we are all capitalists. Nobody suggests government-imposed wage controls for famous celebrities in the sports world or entertainment world. Apparently, we consumers do not care if celebrities get rich by exploiting us. When it comes to celebrities, we cheerfully endorse individualism. We accept the free market's pricing principle: "high bid wins."

Second, we may sense that there is something wrong with the standard definition of monopoly. When producers choose to restrict the output of some resource in order to maximize their revenue, isn't this a form of conservation? Aren't we all supposed to be in favor of conservation these days? Then why should we complain when suppliers of a product or service make more money for themselves when they become conservationists? There is something wrong with the textbook definition of monopoly.

Murray Rothbard has suggested a different definition. He argues that a monopoly is created solely by the state. The economic conditions for monopoly exist whenever the civil government threatens reprisals against competing firms that enter a market to supply a service that consumers are willing to pay for, but which the existing seller refuses to meet by lowering the price and increasing output.

If a firm can increase its revenues by restricting output, it should probably be called a conservation-minded firm. But if its ability to increase revenues by raising prices and restricting output exists only because the state has placed restrictions on its competitors, then it is a monopoly.

What is the most effective way to stamp out monopolies? Revoke the legislation or bureaucratic rules that have created them.

Star Trek has become a conservationist firm, not a monopoly. I am not pleased with this development, since I am a greedy, profligate, free-riding consumer who wants lots more rides on *The Enterprise* for the price of cheap videotapes. My motto in this case is simple: "Conservation? Who needs it?" But millions of trekkies will probably confirm the economic wisdom of the producers to move from "profligate" production to conservationism. Trekkies will not verbally applaud this form of conservation, but I think they are ready to pay for it. So do the producers. They are just doing their job. After all, what else should we expect from people in command of something called *The Enterprise*? □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Education of Thomas Edison

by Jim Powell

In 1854, Reverend G. B. Engle belittled one of his students, seven-year-old Thomas Alva Edison, as "addled." This outraged the youngster, and he stormed out of the Port Huron, Michigan school, the first formal school he had ever attended. His mother, Nancy Edison, brought him back the next day to discuss the situation with Reverend Engle, but she became angry at his rigid ways. Everything was forced on the kids. She withdrew her son from the school where he had been for only three months and resolved to educate him at home. Although he seems to have briefly attended two more schools, nearly all his childhood learning took place at home.

Thus arose the legend that Thomas Alva Edison (born February 11, 1847) became America's most prolific inventor—1,093 patents for such wonders as the microphone, telephone receiver, stock ticker, phonograph, movies, office copiers, and incandescent electric light—despite his lack of schooling.

For years, he looked the part of the improbable, homespun genius: five feet, 10 inches tall, gray eyes, long hair that looked as if he cut it himself, baggy acid-stained pants, scruffy shoes, and hands discolored by chemicals. Later he took to wearing city clothes—black. On more than one occasion passers-by mistook him for a priest and respectfully tipped their hats.

Yet Edison probably gained a far better education than most children of his time or ours. This wasn't because his mother had official credentials. She had taught school, but only a little. Nor was it because his parents had money. They were poor and lived on the outskirts of a declining town. Nancy Edison's secret: she was more dedicated than any teacher was likely to be, and she had the flexibility to experiment with various ways of nurturing her son's love for learning.

"She avoided forcing or prodding," wrote Edison biographer Matthew Josephson, "and made an effort to engage his interest by reading him works of good literature and history that she had learned to love—and she was said to have been a fine reader."

Thomas Edison plunged into great books. Before he was 12, he had read works by Shakespeare and Dickens, Edward Gibbon's *Decline and Fall of the Roman Empire*, David Hume's *History of England*, and more.

Because Nancy Edison was devoted and observant, she discovered simple ways to nurture her son's enthusiasm. She brought him a book on the physical sciences—R. G. Parker's *School of Natural Philosophy*, which explained how to perform chemistry

Mr. Powell is editor of Laissez-Faire Books. He has written for The New York Times, The Wall Street Journal, Barron's, American Heritage, *and more than three dozen other publications.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

experiments at home. Edison recalled this was "the first book in science I read when a boy." It made learning fun, and he performed every experiment in the book. Then Nancy Edison brought him *The Dictionary of Science* which further spurred his interest. He became passionate about chemistry, spending all his spare money buying chemicals from a local pharmacist, collecting bottles, wires, and other items for experiments. He built his first laboratory in the cellar of the family's Port Huron house.

"Thus," Josephson noted, "his mother had accomplished that which all truly great teachers do for their pupils, she brought him to the stage of learning things for himself, learning that which most amused and interested him, and she encouraged him to go on in that path. It was the very best thing she could have done for this singular boy." As Edison himself put it: "My mother was the making of me. She understood me; she let me follow my bent."

Sam Edison disapproved of all the time his son spent in the cellar. Sometimes he offered the boy a penny to resume reading literature. At 12, for example, Thomas read Thomas Paine's *Age of Reason*. "I can still remember the flash of enlightenment that shone from his pages," he recalled. Typically, though, he used his pennies to buy more chemicals for experiments in the cellar.

But Thomas Edison had discovered intellectual play. He wanted to learn everything he could about steam engines, electricity, battery power, electromagnetism, and especially the telegraph. Samuel F. B. Morse had attracted tremendous crowds when he demonstrated the telegraph back in 1838, and telegraph lines were extended across the country by the time Thomas Edison was conducting his experiments. The idea of transmitting information over a wire utterly fascinated him. He used scrap metal to build a telegraph set and practiced the Morse code. Through his experiments, he learned more and more about electricity which was to revolutionize the world.

When the Grand Trunk Railroad was extended to Port Huron in 1859, he got a job as newsboy for the day-long run to Detroit and back. After about a year, he looked for ways to make better use of the five-hour layover in Detroit before the train made its return trip. He got permission to move his cellar laboratory equipment aboard the baggage car, so he could continue his experiments. This worked well for a while until the train lurched, spilled some chemicals, and the laboratory caught on fire.

In 1862, a train accident injured his ears, and the 15-year-old began to lose much of his hearing. Apparently, he realized that as a handicapped boy without any credentials, he must learn everything he needed to know on his own. He dramatically intensified his self-education.

"Deafness probably drove me to reading," he reflected later. He was among the first people to use the Detroit Free Library—with card number 33—and he systematically read through it shelf by shelf. He read literature. He was thrilled by Victor Hugo's new romantic epic, *Les Miserables*, especially the stories of lost children. He talked so much about the book that his friends called him "Victor Hugo" Edison.

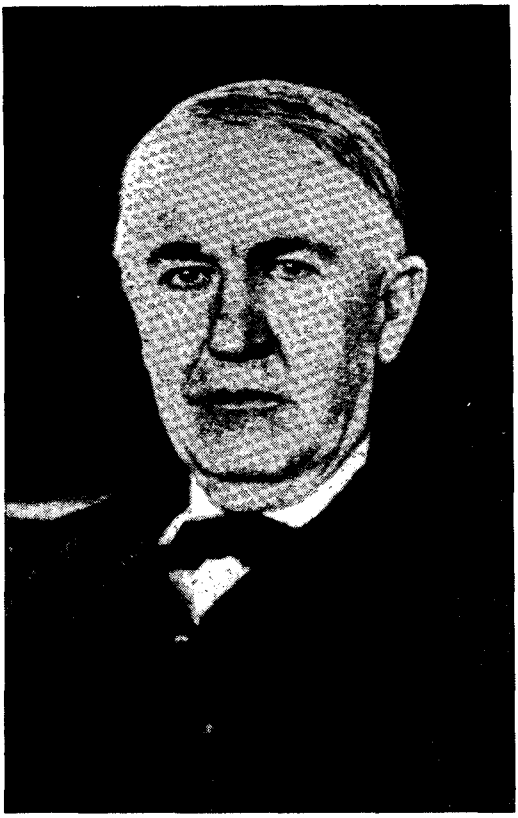
Of course, what fascinated Edison most was science. He devoured books on electricity, mechanics, chemical analysis, manufacturing technology and more. He struggled with Isaac Newton's *Principles*, which made him realize his future would be with practical matters, not theorizing.

The Joy of Learning

As a home-schooled, self-educated youth, Edison learned lessons that were to serve him all his life. He learned education was his own responsibility. He learned to take initiative. He learned to be persistent. He learned he could gain practical knowledge, inspiration and wisdom by reading books. He learned to discover all kinds of things from methodical observation. He learned education is a continuing, joyful process.

At 20, Edison got a job as itinerant Western Union telegraph operator and became remarkably proficient. He worked in Cin-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Thomas Alva Edison

cinnati, Louisville, Indianapolis, Memphis, Boston, and New York. The more he learned about telegraphy, the more he wanted to learn. He took apart equipment and reassembled it until he understood how it worked. He experimented with ways to make it better. He decided that greater knowledge of chemistry would help him, so he haunted used bookstores and ordered chemistry books from London and Paris. He filled his rented rooms with chemicals and junk metal for his experiments. One associate observed: "He spent his money buying apparatus and books, and wouldn't buy clothing. That winter he went without an overcoat and nearly froze."

Edison's knowledge and enterprise led to a dramatic series of inventions. On January 25, 1869, he applied for a patent on a telegraphic stock ticker which, after he filed patents for dozens of successive improvements, became standard office equipment in America and Europe. Edison invented a printing telegraph for gold bullion and foreign exchange dealers. Western Union and its rivals battled to gain control of Edison's patents which revolutionized the telegraph business. For example, he figured out how a central telegraph office could control the performance of telegraph equipment at remote locations. He developed a method for transmitting four messages simultaneously over the same wire. Intense curiosity, nourished by his home education, drove him to become perhaps America's best technician on telegraphy.

From his practical experience, Edison learned to make the most of unexpected opportunities. For example, on July 18, 1877, he was testing an automatic telegraph which had a stylus to read coded indentations on strips of paper. For some reason, perhaps excessive voltage, the stylus suddenly began moving so fast through the indentations that the friction resulted in a sound. It might have been only a hum, but it got Edison's attention. His imagination made a wild leap. Explains archivist Douglas Tarr at the Edison National Historical Site, West Orange, New Jersey: "Edison seemed to reason that if a stylus going through indentations could produce a sound unintentionally, then it could produce a sound intentionally, in which case he should be able to reproduce the human voice." A talking machine!

Edison worked out its fundamental principles in his notebooks, and on December 17, 1877, he filed a patent application for the phonograph ("sound writing"). This was no improvement of existing technology. It was something brand new, Edison's most original invention. It was also one thing he didn't seek to invent, unlike the light bulb, power generation systems, and other famous inventions which he deliberately pursued. Having developed the idea, Edison followed up, working on and off for more than two decades to produce recorded sound quality which would thrill millions.

With a flexible and open mind, Edison enjoyed an important advantage in the race for electric light. Other inventors were committed to refining low-resistance arc lights

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

(then used in light houses) which required large amounts of electrical power and copper wire—the most costly part of their lighting systems. In September 1878, Edison cheerfully began considering the opposite: a high resistance system which would require far less electrical power and copper wire. This could mean small electric lights suitable for home use. By January 1879, at the laboratory he established in Menlo Park, New Jersey, Edison had built his first high-resistance, incandescent electric light. It worked by passing electricity through a thin platinum filament in a glass vacuum bulb to delay the filament from melting.

But the lamp worked for only an hour or two. Improving performance required all the persistence Edison had learned as a child. He tested many other metals. He thought about tungsten, the metal in light bulb filaments now, but he couldn't work with it using tools available in his day. He tried carbon. He tested carbonized filaments of every imaginable plant material, including baywood, boxwood, hickory, cedar, flax, and bamboo. He contacted biologists who could send him plant fibers from the tropics. "Before I got through," he recalled, "I tested no fewer than 6,000 vegetable growths, and ransacked the world for the most suitable filament material." Best performer for many years: carbonized filaments from cotton thread.

This proved to be one of Edison's most perplexing inventions. "The electric light has caused me the greatest amount of study and has required the most elaborate experiments," he wrote. "I was never myself discouraged, or inclined to be hopeless of success. I cannot say the same for all my associates." Edison at the peak of his inventive powers drew inspiration, as he did in his youth, from Victor Hugo's novel *Toilers of the Sea*. The hero, Gilliatt, struggled against the waves, the tides and a storm to save a steamship from destruction on a reef.

Hailed as "The Wizard of Menlo Park," Edison was often able to see possibilities others missed because he continuously educated himself about different technologies. For example, during the late 1880s and early 1890s, he read widely about the latest developments in photographic optics. He investigated the potential of tough, flexible celluloid as motion picture film and had George Eastman make 50-foot-long, 35mm wide test strips. Edison worked out the mechanical problems of advancing film steadily across a photographic lens without tearing. He linked his new motion picture camera to an improved phonograph, capturing sound synchronized with motion pictures. Then Edison developed what he called the Kinetoscope to project these "talking" images on a screen.

In 1887, Edison built a magnificent laboratory in West Orange, New Jersey. It was 10 times larger than his first, fabled facility in Menlo Park. The main building alone contained some 60,000 square feet of floor space for machine shops, glass-blowing operations, electrical testing rooms, chemical stockrooms, electrical power generation, and other functions.

Once a day, Edison toured this vast facility to see what was going on, but he did most work in the library. It had a great hall, a 30-foot-high ceiling and two galleries. Right in the center, Edison sat at a desk with three dozen pigeonholes, surrounded by some 10,000 books. Here he would ponder new ideas and hear his associates report on their progress.

As Edison grew older, he became stouter and harder of hearing, but he remained as enthusiastic as ever about the free-wheeling pursuit of practical knowledge. In 1903, he hired Martin Andre Rosanoff, a Russian-born, Paris-trained chemist who asked about laboratory rules. "Hell," Edison snorted, "there ain't no rules around here! We're tryin' to accomplish somep'n."

After Edison died on Sunday, October 18, 1931, his coffin was placed in his beloved West Orange library for mourners to pay their respects. Rosanoff identified a key to the Old Man's enduring fame: "Had Edison been formally schooled, he might not have had the audacity to create such impossible things." □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

E Pluribus Unum

by Ralph A. Raimi

It is futile to argue about the proper translation of the motto *E Pluribus Unum*; the Latin used there is ambiguous, as befits a motto, and it is in the nature of the Latin language to be a bit cryptic in its prepositions and verbs. I myself have no doubt that the motto refers to the States, which is to say that where there had been a certain 13 colonies (in America) they were now become a single nation. To some degree—though I doubt this—the motto might have meant also that various ethnicities were combined, as that Pennsylvania had a large German component and New York Dutch, and that Calvinists were to live peaceably with Wesleyans. Possibly, but all this was minor compared to the real problem of 1789, which was to combine 13 quarreling independent States into one nation, with a common policy in foreign and interstate trade, a common defense, a guaranteed respect for one another's laws, and so on.

That was 200 years ago, and much has changed since. If today some choose to translate *E Pluribus Unum* as "diversity within unity," and use the Latin "pluribus" to sanction our current celebration of the diverse cultures visible in American life, that is agreeable to me and most other Americans, for it certainly does not deny the union of the States as well. But we must not forget the "Unum" that lies behind the Union that Lincoln fought to preserve. If *pluribus* is reinterpreted to refer to the multitude of diverse cultures present here, as well as the multitude, now fifty, of States, then *unum* correspondingly must refer to some unity in our common culture, as well as the legal union of our States.

What Unites Us?

In what, then, consists this unity in our culture? What exactly is it that unites us, and what is it that *should* unite us? Are they the same thing? Are they the *right* thing? And—are they enough?

Lincoln worried about that last question. In his Gettysburg Address he characterized the Civil War as testing "whether *any* nation so conceived and so dedicated can long endure." That is, conceived in liberty, and dedicated to the proposition that all men are created equal. That's all. He did not say "conceived by Englishmen," or "conceived by Judeo-Christian Deists," though one could argue some such proposition. He did not say, "dedicated to the proposition that all white males, native-born, 21 years old, and demonstrably responsible and literate should have an equal vote," though that, too, was a proposition most of the Founders would have approved. Lincoln knew that these details of our history were only incidents, perhaps necessary or perhaps only accidentally true in their time, but certainly not the essence. He kept it simple because a battle over a couple of the more important details was exactly what he was commemorating that day, and he knew others must follow, not only in that great civil

Professor Raimi teaches mathematics at the University of Rochester, Rochester, New York.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

war of 1863 but into the indefinite future. Not that such "battles" were necessarily to be sanguinary, but merely inevitable; yet to bring them on prematurely would be foolish. With Matthew he might say, "Sufficient unto the day is the evil thereof." In our system it is best to disagree only when the choice is forced, meanwhile celebrating such agreement our culture already enjoys.

Liberty and Justice for All

In Lincoln's time, as at the time of the nation's founding four score and seven years earlier, there were very few cultures in the world dedicated to the proposition that all men are created equal, or to any proposition very near it. In 1776 again, there were few societies valuing liberty over other values, and even fewer enjoying anything very near it. Today there are more of both, though not very many; and one reason there are as many as there are is the example of the United States of America. And one reason the United States of America succeeded in institutionalizing liberty and equality in 1776 was that its English heritage, vague and self-contradictory as it often was in detail, included the Magna Charta and other precedents of English law, and an associated philosophical tradition culminating with Hobbes and Locke. Nor did the British heritage come to a stop with Independence, for the precepts of Hume, Smith, Burke, and Mill mingled wonderfully, as the years rolled down towards Lincoln, with those of our own founders.

It is true that Americans do not officially celebrate Magna Charta, Guy Fawkes' Day, and the Glorious Revolution of 1688, but that does not put these things outside our common culture; they were important presences here in 1776, as was the enormous heritage of the Common Law by which, fundamentally, we still order our responsibilities. The colonies of Spain and France in America did not begin with any such law and tradition, and the sad later history of those colonies when they became independent has never stopped exhibiting the difference.

This is not to say that a "British-American" (to use the repellent jargon of our times) is any more real an American than any other kind. We must all be grateful for the English history behind our nation's founding, but we of the year 1995, whatever our lineal descent, cannot take credit for the concept of trial by a jury of one's peers, any more than for the discoveries of Isaac Newton. We can take credit, if we deserve it, for *maintaining* that legal principle, and for understanding and using the law of gravitation, but not because they were made by our actual ancestors, let alone by ourselves in the present century.

Our European Heritage

My own father and mother immigrated from Poland threescore and ten years ago, and the Russian Poland of their youth most assuredly had no tradition of liberty or equality, either one, whatever definition you might give the words. That is why they came here: not to import the prejudices and traditions they had grown up among, but to adopt new ones, to adopt a new language and a new attitude and whatever else was required to become American. Of course they brought with them some of their own previous culture; no adult is born yesterday. Even their children—myself and my brothers—value some of what was brought from Poland, and from lands more ancient still: for our tradition teaches that our lineal ancestors, under Moses' leadership and by the benevolence of God, were brought out of slavery in Egypt. We are asked by that tradition to celebrate the Exodus, and be grateful for it, but not to take credit for it, or for The Ten Commandments later given to Moses on Sinai. Such traditions are borrowed by me, not born into me. They can be borrowed by anyone with wit to use them well; they are no more and no less mine and my father's than the tradition of the Common Law, which is not to be found in the Books of Moses, but which my father accepted for us when he arrived here, and freely chose to live by.

My father's culture included much else before he came to America. His own father,

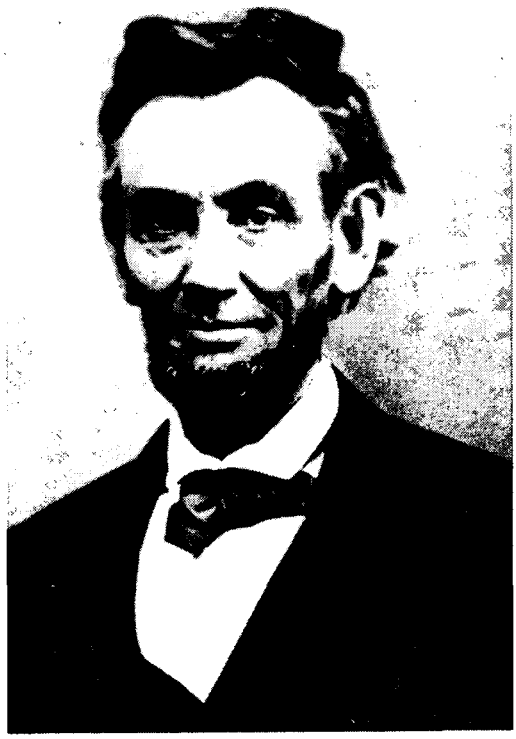
LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

indeed the whole Jewish part of his native town, were adherents of a religious sect of a particularly pious, intolerant, and Puritanical nature. For gloomy superstition and repression of women, for example, the *Hasidim* of Nasielsk had no peers. Is that, too, part of the ethnicity I am supposed to celebrate as part of this multicultural society? Excuse me; I'll have the Magna Charta instead. It's English, maybe, but it's mine. *Hasidim* are more free under English (or American) law than Americans would be under *Hasidic* law; we intend to maintain it so.

What then of our ethnic multiplicity? Are we supposed to reject it? Deny it? Is *Unum* the only important part of the motto on our nickels and quarters? Of course not. As it is with me, so it is with everyone: We all have traditions and values and attitudes that we cannot forget, and that we do not necessarily hold in common with our neighbors here in America. We have every right to enjoy them, provided they respect the common weal. Many of these cultural values are associated with the name of some country, empire, language, religion, or caste that once governed our lineal ancestors. America is in fact the place where private citizens are enabled to retain and enjoy these things in peace and mutual respect better than in any other country; we have been a leader in this regard.

Select the Right Traditions

But there are certain traditions that we must ourselves maintain, and not merely respect in others. Traditions that we cannot reject if we are to call ourselves Americans, even if they conflict with everything held valuable in some tradition of our own lineal ancestors. The rule of law and equality before the law cannot be abridged, even if it was our ancestors' custom to exempt noblemen from the courts and laws that governed commoners, whether in eighteenth-century England or nineteenth-century Russia or twentieth-century Arabia. Equality, too, is American, and it must be accepted by any immigrant who would become American. We must deny the immigrant's "right" to bring with him a plan for sabotaging these two American values, whatever might have been the practice of his own forebears. Not all values are equal and not all cultures have been benign.



Abraham Lincoln

Lincoln was right to limit his catalogue of American ideals to two—liberty and equality—for that too is American: to limit as little as possible the values our citizens—if they are to be Americans—are asked to hold and exercise. And even then we do not compel *belief*, for even that much would violate our principle of liberty. There are in fact many zealots among us who would reduce America to a theocracy if they had their way. We do not cut off their ears; we only ask that, apart from what they say and write, they will in their actions obey our laws. We hope that with time they will learn better. There are also among us those who would prefer an America cleansed of blacks, or of Jews, and who say so. We do not cut out their tongues or sell them into slavery; we only ask that, apart from what they say and write, they will

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

in their actions obey our laws. We hope that with time they will learn better.

The Rule of Law

Liberty and equality have their expression in the rule of law, and this fabric of freedom has been in large part forged in the history of England, but while for this we must be grateful to the England that did this for us it does not follow that those of us of English lineage are any better or more important than the rest. Nor, on the other hand, does it follow that in some anxiety for "equality" among cultures we must downplay or deny the English origins of our polity.

True, we have had to reject much of English heritage too. We allow no princes or viscounts here, and we do not kidnap drunken sailors for our Navy, nor do we exile thieves to a 10,000-mile distant colony, or place debtors in prison. These all were English customs as little as two hundred years ago. Thus we have been selective in our borrowing from the British heritage. (So have the British!) But though we have rejected some of it, we cannot deny that what we have selected in law and politics owes more to Britain than to Africa or China.

To say that our notion of liberty derives mainly from Britain is to simplify, for Britain itself had borrowed from ancient Greece and Rome. Similarly, our principle of equality is also partly rooted in an older source: the Levantine conception of a universal God to whom we are all, equally, his children. But the English were peculiarly successful in developing both ideas in practical terms, forming a solid base for the great American experiment.

At first glance, *E Pluribus Unum* and the mention of liberty and equality speak nothing of the artistic, scientific, or other intellectual or sentimental features of our culture. They speak of government and of rights and duties of a civic nature, but not about music, food, mathematics, and sports. In these domains we are entitled to be as diverse as we please; but it should be recognized that this entitlement too is American. There are cultures where all styles, yes, even in music, food, mathematics, and sports, are dictated by an authority that will allow no deviation. Not so in America. We may respect diverse cultures in most respects, and indeed we have borrowed from all of them, but we must reject as insufferable those which would compel particular cultural choices outside the domain of civil law, for that would be to deny our liberty.

In short, we absolutely reject that part of any tradition that would deny equality or liberty, but not because they are merely alien in the sense of being current some place outside our geographic borders. Traditions subversive of liberty or equality are outside our borders in a deeper sense: they are alien to our spirit.

To paraphrase another American *we* count it self-evident that it is better to be free than to be enslaved, and better to be equal under the law than governed by laws depending on class, race, or religion. It is the *definition* of Americans, that we were conceived in liberty and dedicated to the proposition that all men are created equal. There is within our borders an enormous cultural diversity, which we not only tolerate, but enjoy and celebrate—but always within these two restrictions of peculiarly British origin. Each of us is entitled to love, despise, or be indifferent to Italian opera, Buddhism, or the Theory of Relativity; there is no Principle of Multiculturalism that compels our allegiance to any of this. But any principle that conflicts with Lincoln's definition of America is not ours to reject, for that would be impossible to reconcile with America as an idea. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Dissatisfaction Guaranteed and No Money Back

Within days of last November's elections, Newt Gingrich promised that Congress would take up the issue of a constitutional amendment to permit voluntary school prayer. That news must have hit me at an uncharacteristically irritable moment.

"Why even bring it up?" I thought. "Congress ought to focus *its* attention on fixing the economy by rolling back the intrusions of the central government. Besides, children have every right now to take a moment on their own and say a quiet prayer; amending the Constitution to permit anything else would open the door to subtle coercion and endless litigation. What could prayer in school accomplish that can't be accomplished by prayer outside of school?"

That was a visceral, almost unthinking response. What I needed was a talking-to by fellow Christians, followed by a moment of silence to think the whole thing through.

Understanding the school prayer controversy is impossible without an appreciation for the endurance of Christian parents who have children in public schools. Upon reflection, I now realize that they, in general, exhibit far more tolerance than many of their secular, anti-school prayer critics.

Christian parents today feel besieged, as if they have been targeted as the one group in America that anybody can ridicule and discriminate against legally and proudly. Most of them would probably turn the other cheek were it not for the fact that when it comes to public schools, their tax dollars are helping to finance the assault.

The U.S. Circuit Court of Appeals in Cincinnati ruled that a picture of Christ hanging in a school hallway "entangles the government with religion." In Idaho, another Appeals Court ruled that high school graduation prayers are unconstitutional even if a majority of students vote that they want to pray. In establishing the precedents on which these decisions were based, the Supreme Court earlier struck down organized prayer in the public schools (1962), recitation of the Lord's Prayer (1963), official moments of silence (1985), and prayer at school graduation ceremonies (1992).

America's Christian heritage—an undeniable and vitally important ingredient in this nation's success—is being systematically expunged from classroom history texts. Even Christmas trees and Santa Claus are banned in some schools as threats to the separation of church and state. Simply allowing Christian students to meet on school grounds after hours, much as the Future Farmers of America or a homosexual group can do, had to be fought for tooth and nail all the way to the Supreme Court.

The Constitution's guarantee of freedom *of* religion has become taxpayer-funded freedom *from* religion. Writing in the November 28 *U.S. News & World Report*, columnist John Leo recounts the episode of a Douglasville, Georgia senior class pres-

Dr. Reed, economist and author, is President of the Mackinac Center for Public Policy, a free market research and educational organization headquartered in Midland, Michigan.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ident who was nearly prevented from giving the traditional graduation address because school authorities feared he might say something religious in his remarks. "He presumably could have turned the occasion into a rally for Jeffrey Dahmer or called for the violent overthrow of the state of Georgia without attracting any censors," says Leo, "but a suspected reference to God was enough to shut him up."

While it's deemed unconstitutional, antisocial, and even backward to cite the Bible in the classroom to make a point, it's OK for teachers to put condoms on bananas in a sex education class, or to teach that no one person's view of right and wrong is any better than the next person's. Christian parents who believe otherwise are expected to keep quiet and send the kid, as well as the money the system spends to undermine what they've taught at home.

"But if Christians object," public education's apologists retort, "they can send their children to private schools." Sure, and pay twice—once in tuition for the school they buy and again in taxes for the other product they've rejected.

Incidentally, though I've referred to Christians up to this point, there are certainly other groups I could have included. Christians are not the only people who have problems with what goes on (or doesn't) in the public schools.

A carefully crafted constitutional amendment on this matter may be a remedy that will satisfy Christians but the question is, will it satisfy atheists or agnostics? What about others whose tax dollars pay for the schools but who don't want even voluntary prayer being supervised on government property with government employees?

There is a larger point here than simply the fact that public schools have become intolerant to religion. That point is this: *there can be no final resolution of matters of this nature, no universal satisfaction, within the context of a coercively-financed system that has captives instead of customers.* When you hear the motto, "Satisfaction Guaranteed or Your Money Back," the last thing that comes to mind is a government program.

In free markets where individual choice prevails, conflict is minimized. You get what you pay for and you pay for what you get. If you don't like the wares in one store, there's no need to throw up a picket line. You don't have to attend lengthy and boring meetings and be talked down to by public "servants." You don't have to wait until the next election and hope that 50 percent plus one of those who vote will vote the way you'd like them to. You simply shop elsewhere. End of discussion.

Here's how Walter Block explained the problem in his chapter, "We Ought to Have Sex Education in the Schools," in FEE's 1994 book, *Clichés of Politics*:

> Instead of considering the proposition "We ought to have sex education in the schools," let us contemplate "We ought to have pizza in the restaurants."
>
> Were this question solved in the manner presently used for sex education, our system would be very different. Most restaurants would be run by the government. All citizens would be forced to pay for these public restaurants, whether they used them or not. Those who patronized private ones would have to pay twice: once in fees for meals, and then again through taxes. People, moreover, would be assigned to the public restaurant located nearest to them.
>
> As to the pizza question, all public restaurants would either stock this foodstuff, or they would not. There could be no such thing as restaurants specializing in different cuisines, and people sorting themselves out according to their tastes. Thus, either the pizza lovers, or the pizza haters, would be disappointed.

Controversies like prayer, or sex education in the schools will not end until concerned parents can freely opt for private alternatives without being forced to pay for public systems that assault their beliefs and values. Those who believe that a constitutional amendment allowing voluntary school prayer will solve problems should understand that it would solve some problems, create others, and leave the fundamental dilemma unchanged.

A free market in education is the real answer to prayer. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Business-Government Collusion

by Eric-Charles Banfield

Back when first cutting my teeth on the concepts of free-market economics, I was impressed by the argument that business firms have to satisfy their customers to survive. Firms have strong, natural disincentives against performing poorly or acting immorally because they would risk losing customers and going out of business. For some time thereafter, I defended "business" on those grounds. Business is not an evil, I argued; indeed, businesses are almost "slaves" to the shifting and elusive passions of the sovereign consumer.

But over the years, I found myself forced to refine my views regarding business firms. Three lessons stand out. First, being "pro-business" is not the same as being "free-market." Second, regulation, which presumably works "against" business, goes hand-in-hand with special privileges and artificial protections "for" business. Third, the phenomenon of active and routine collusion between business and government made the business world seem less than the pure and benevolent social agent I once perceived. In short, I began to recognize that the concept of "the corporate welfare state" goes a long way to describe some of the problems we observe in the complex nexus between the market sector and the government sector. All too often, businesses lobby government for special privileges they would not have in a true, free market.

Mr. Banfield is owner of Banfield Analytical Services in Westmont, Illinois. As an adjunct policy analyst for the Heartland Institute, he has testified before the National Association of Insurance Commissioners, The Illinois General Assembly, and a U.S. Republican Hearing on health-care reform.

What Is Pro-Business?

Much political rhetoric over the past decade has centered over whether a particular policy is "favorable to business," or whether a candidate is "pro-business." In earlier years, I rooted for any "business-friendly" policy move, and supported conservative "pro-business" politicians. But, as I learned over the years, "pro-business" ideas are all too often inconsistent with "free-market" ideas.

When politicians speak about being "pro-business," they try to create the impression they will do things to benefit the business climate. That help, however, can come in two forms. One form is in the promise of deregulation, or a promise to fight new regulations or taxes that will potentially harm the economy, an industry, or a firm. This is generally all to the good; the help is "negative"; that is, the politician will focus on what the government should *not* do regarding a business's activity.

But the second form of "pro-business" help is "positive," that is, the state takes some action that specifically helps a business or an industry, usually at the expense of other people. The government creates some law or regulation that allows a busi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ness to do or have something it could not otherwise do or have in a true free market. It grants what amounts to a privilege.

That distinction might seem clear. Yet, as *The Economist* put it, "businessmen themselves—torn between a desire to be left alone and an appetite for special favors—are often unsure quite what they want from government."[1]

Examples of Privilege

Bailouts. Clear-cut examples of artificial, government-granted privileges include bailouts, such as when a large firm or industry is losing money. The government gives the failed entity cash or cheap loans, or allows it to write off its creditors without liability, so it can resume business despite its poor performance. Recent examples include banks and auto manufacturers.

Subsidized loans. Some sectors are perpetually propped up, regardless of their condition. For example, government offers "small businesses" subsidized loans at below-market interest rates, with the taxpayer assuming the risk. When government-assisted "small-business investment companies" fall, these "venture capital" firms simply declare bankruptcy before the government's Small Business Administration can file a claim on the assets.[2]

Outright "disincentive" subsidies. Another clear example of privilege is subsidies in which an outright payment occurs. For example, agricultural corporations get every kind of corporate subsidy imaginable, including dairy price supports, export-enhancement programs, and payments for not growing certain crops.[3]

Resource privileges. Other privileges include special deals for ranchers, oil companies, and lumber companies to graze on, drill in, or cut resources from federally owned lands at drastically reduced prices. They get those deals not only because the government is reluctant to sell any of its vast land holdings, but because firms in those industries are unwilling to buy the land for what it's worth, or to pay full price for the resources they use.[4]

Monopoly privileges. Another example of privilege is cable companies and utilities that get granted exclusive monopolies over their regions, using the law to outlaw systematically any competition.[5]

Trade protection. Businesses argue for restricted competition at the international level, too. Many large corporations saw the North American Free Trade Agreement (NAFTA) as a vehicle for securing "compensatory" protections and other favors. The administration "negotiated concessions" for flat glass, durum wheat, home appliances, wine, peanuts, textiles, sugar, and citrus and vegetable interests, all "politically sensitive industries" that needed "relief."[6]

Large businesses have often supported labor, zoning, permit, safety, or other regulations designed to keep out low-cost competitors, because the bigger firms were already meeting those new requirements anyway.

As *The Economist* reports, "Regulation offers ways not just to create markets but also to compete with rivals. Firms have learned to lobby for rules that bring them benefits. Established companies . . . may lobby for stricter standards, knowing that these will mainly affect new entrants. Companies lobby for standards which they can meet, but impose high costs on competitors."[7]

A classic case of that is underway with regard to environmental regulations. In fact, *The Economist* continues, companies in this area "press for regulations that will create a market for their products. Companies selling low-sulphur coal have rooted for legislation to reduce acid rain." And waste management firms have fought to maintain and strengthen environmental regulations, including new landfill restrictions, waste incineration standards, and licensing schemes to keep out competitors.[8] The Clinton Administration's smog-control plan is designed to mandate a greater market share for ethanol, "and is likely to boost further the fortunes of Archer-Daniels-Midland Co., the politically active agricultural company that dominates the ethanol

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

market."[9] ADM did no *direct* lobbying on the issue, but "didn't have to." Competing industry groups charge that ADM's influence was indirect, primarily through The Renewable Fuels Association, a trade group.[10]

It's routine. One insurance executive noted, "It's common in our industry: Large companies support legislation to drive out small competitors."[11]

Drawing the Line

All of those privileges are perfectly legal, as business lobbyists and activists quickly point out. But legal doesn't mean moral. One Texaco executive, for example, feels uncomfortable drawing a hard line between lobbying against bad regulation and lobbying for special privileges. He used the old "what's-good-for-General-Motors-is-good-for-America" argument. His analogy was, "If growing wheat happens to be good for the nation, then it's okay to say so [in your lobbying efforts], even if you're a farmer."[12]

The Harm to Others

When the harm to consumers and taxpayers is considered, however, that claim of morality is harder to defend. To free-market advocates, such privileges are not the proper function of government. Ethical businesses should sink or swim on their own, without any help or harm from government. That is, the proper pro-business stance is "negative" (i.e., the state should leave me alone). A "positive" stance (i.e., the state should do me a favor) is improper. Those favors or privileges would not exist in a true free market without government intervention. They can be granted only at the expense of others: taxpayers, consumers, or other businesses.

Tax Breaks: Are They "Subsidies"?

Some privileges or exemptions are slipperier to define. A good example is tax breaks. It remains an open question among free-marketeers, if an industry lobbies for and receives an extra tax deduction that some other industries don't get, whether or not that runs counter to free-market principles. Some would argue that anybody who can get a break from burdensome government taxation should accept it, and should feel no moral guilt about keeping money away from a wasteful, corrupt bureaucracy. Also, as one of my colleagues explained, every $1.00 in tax revenue leads to $1.83 in new spending. Every dollar you keep from government, therefore, prevents another 83 cents in deficit borrowing. Tax breaks are a moral and economic good.

Others would argue, on the basis of "equal protection of the laws" that the same breaks should go to all industries; if not, they should be opposed. Seeking and accepting a special tax break is "unethical."

A *Wall Street Journal* editorial, focusing on the "industrial subsidy game" played by state and local governments, recently tackled this tricky issue. "The cleanest line we can draw . . . is between enterprise that is subsidized and that which isn't." The editorial faulted the city of Austin, Texas, for giving a tax break to Apple Computer on the following grounds: "As long as . . . localities go bidding for business *with funds that must be raised from other taxpayers,* then the objections of other citizens must be weighed" [Italics added].[13]

The editors have a point: Many argue that government will spend what it will spend. Perhaps more taxes mean more spending. But lower taxes do not mean the government will spend less. Thus, lowering taxes for one person means more taxes paid by another (perhaps by someone in the future, if the deficit is made up by borrowing that must be repaid in the future). Under this argument, a tax break is indeed a subsidy.

A New Look at Tax Subsidies

Whether tax breaks are improper privileges or not, they seem increasingly unpragmatic, even to policymakers. Some mayors of large cities abhor the idea "that politi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cians can create jobs by handing out temporary tax bribes to companies" to spur a city's economic activity.[14] The Heartland Institute wrote "there is growing consensus among experts and the general public" that tax abatements and subsidies "are an unsound investment."[15]

Businesses, too, are learning those tax breaks can backfire. A Michigan judge recently barred General Motors Corporation from closing its Ypsilanti assembly plant, on the grounds that GM's acceptance of Michigan's tax abatement program was "a promissory estoppel," a contract or implied promise to keep the facility operating in exchange for relief on its taxes.[16] Tax breaks have strings attached. Perhaps business managers will think twice before looking at tax subsidies as some "free lunch."

Regulation and Privilege

Despite a little difficulty in defining privilege, we can say that regulation and privilege are two sides of the same coin. And, to extend the analogy, performing the regulation-privilege coin trick requires a balancing act and a vicious cycle.

All large industries now face regulations and privileges. If the restrictions cost more than the privileges are worth, the industry suffocates, leaving nothing to tax or regulate. If the value of privileges exceeds the cost of the restrictions, then the industry takes advantage, and abuses occur for which regulators are blamed. Balance is crucial. If regulators take the heat, they impose more regulations. But those hurt industry profits. The industry in turn complains to regulators, legislators, and staffers. The government, instead of removing the restrictions, offers privileges to offset or compensate for the regulatory burdens. But those privileges lead to excesses and abuses, which lead to more call for re-regulation, and the cycle continues.

The classic example is the S&L industry. For decades after the 1930s, the S&L business suffered harsh regulation but enjoyed the offsetting privileges of deposit insurance and legal protection from competition. The system contained its inherent problems because the two were roughly balanced. The Depository Institutions Deregulation and Monetary Control Act of 1980 removed some of the industry's burdensome regulations, yet it increased the privilege of deposit insurance, boosting coverage to $100,000 per account from $40,000. Regulation and privilege became unbalanced, so the industry abused the privilege of taxpayer-backed deposit insurance, and taxpayers got stuck for $170 billion.[17]

Regulation as an Access Window

A lot of that business begging is done by firms that are heavily regulated. Indeed, many argue, that regulation is precisely what hindered their competitiveness and threatened their health. But how do regulation and privilege get so intertwined?

Basically, businesses get entrenched in the process. Once regulated, an industry opens an "access window" to the political process, via lobbyists and trade associations. After all, it must defend itself against bad regulations.

But these meetings are hardly knockdown, drag-out fights. At hearings, business and politicians usually play a polite, conciliatory game. The industry often "agrees that reform is needed." It acknowledges the laudable *intention* of the new government regulation, but questions only some of the technical language in the clauses. The regulated industry rarely fights to defeat an entire measure. Instead, it focuses its resources only on opposing or rewriting some technical language in one or two sections of a proposed bill or regulation. They know that the regulations and laws will harm them. But they will eventually lead to some later concession or compromise, or better yet, an outright privilege that will benefit them later. The window works both ways.

An article by Gary S. Becker, a 1992 Nobel laureate and professor of economics at the University of Chicago, said, "The best way permanently to reduce undesirable business influence over the political pro-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cess: Scrap all the regulations that serve as little more than tollgates for graft."[18]

Seeking Safe Harbors: The Gray Area

Often that concession or compromise helps a business or industry simply define what it can or cannot do. Frequently, businesses lobby Washington to help redefine some previous regulation that was poorly written, or has not been flexible enough to accommodate new technology or new trends. Much lobbying involves updating, revising, or amending old laws that are not relevant to current reality. Businesses constantly revisit old issues to redefine what is illegal and what is not, for they wish at least to act legally. They ask government for "guidance," "flexibility," "no-action letters," and "approvals of action" so that if a regulatory question comes up later, the business can respond, "The government said it was legal." Businesses need to know where they can find "official non-enforcement," "comfort levels," or "safe harbors," so they can proceed in their business with increased legal certainty, with clear and consistent definitions of the law.

Technical Input

Businesses also offer to help government write the laws and regulations so they make some logistical sense, so they are internally consistent, or so they have a chance of "working" in a technical sense. Examples of that type of business-government cooperation abound in finance, such as insurance and banking, especially with regard to accounting or actuarial matters. Regulations and laws written without industry input would otherwise be self-contradictory, infeasible, excessively burdensome or costly, or otherwise inconsistent with the reality of how the industry operates.

Businesses often bring in expert advisers from "the real world" to work on "technical working group meetings" and explain to officials why the new rules must be written very carefully. Government accepts input from business so it can say its enlightened, interactive, "give-and-take" process resulted in a regulation or law that "we can all live with," that "everyone had a say in," that was "even-handed" or "reasonable."

That close contact between business and government often leads to one business gaining some regulatory privileges or advantages over another. During those technical draftings of a bill, a business can slip in a provision that (perhaps even unbeknownst to the regulators) will indirectly harm its competitors.

Much of the time, however, businesses are not trying to harm or defraud anyone. They're not looking for permission to rob or defraud people. They just want better definition of the laws, because they are so numerous, so comprehensive, and so pervasive. Businesses want legal confidence so they can form expectations and plan ahead.

The Revolving Door

The people who participate in that process can then pass through the "revolving door." Businesspersons with expertise at dealing with government on technical industry issues find themselves candidates for jobs as regulators, who can work well with their former industry compatriots. Hiring experienced people from an industry allows the government to say it is being "reasonable" and wants to get the regulation "right." Regulators, with experience at dealing with industry executives, in turn find opportunities as corporate government-relations directors or lobbyists in trade associations.[19]

The Game

Many in business and government see this whole process, which has evolved over centuries, as simply "the way things are done" and the only way to have any influence over what happens between business and government. If a business stands on principle and lobbies vigorously against every new law or regulation, it is seen as

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

hostile and stubborn, unwilling to compromise, unwilling to "play the game." Regulators see that behavior as a business's way of saying it doesn't want to be invited back to the hearings next time. Nonetheless, Stanley S. Arkin, a New York attorney, believes "resisting governmental authority may be an act of social responsibility for corporate America. Companies that stand up . . . and fight . . . are performing a patriotic duty by resisting the arrogant and undeserved application of . . . law."[20]

Still, a business or industry that shuns the very process that writes its industry's regulation would find itself stranded, having cut off its avenue of influence and information. That can be good and bad. It might prevent it from lobbying for privileges. But it will also prevent it from lobbying against future ill-conceived regulations. It works both ways. Lobbying for deregulation is tantamount to lobbying for fewer privileges.

So businesses tend to just let things go as they have in the past. Most of the action is in that "gray area." Is that middling type of lobbying good or bad? It depends. If businesses use that access window to write regulations that harm their competitors unjustly, or at consumers' expense, then they are abusing the process.

Regulatory Capture

The phenomenon of using the regulatory process to one's advantage is nothing new. Economists years ago labeled it "the capture hypothesis." Says one textbook,

> The capture hypothesis assumes that regulatory agencies are set up in the interest of the firms to be regulated and that regulators serve the interest of regulated firms (who have "captured" them through the political process), not consumers. The capture hypothesis turns on its head the idea that economic regulation is designed to protect the public interest from monopoly. It is easy to point to examples of industries that like being regulated [such as airlines, telephones, and trucking].[21]

Companies that "like" being regulated are entrenched neck-deep in the political process, opening up room for abuses more blatant than just legal subsidies and protections. Becker wrote:

> Corruption is common whenever big government infiltrates all facets of economic life. In modern economies, profits often are determined more by government subsidies, taxes, and regulations than by traditional management or entrepreneurial skills. Huge profits ride on whether companies win government contracts, get higher tariffs and quotas, receive subsidies, have competition suppressed, or . . . have costly regulations suppressed.
>
> Companies respond to the importance of government's role by striving to influence political decisions. It is often effective just to lobby politicians, and . . . bribe officials and politicians in return for government favors and profits.[22]

Yet protections and subsidies, even bribes, can ultimately destroy the targeted industry. As I wrote on S&Ls and banks, "Many bankers still want the privilege of [deposit-insurance] coverage but also want fewer regulations. [They] cannot have it both ways. They must choose, and soon, either to stagnate as wards of the state in an unpredictable political process, facing eventual demise, or to be free and responsible institutions."

Paul Weaver of the Hoover Institution, in a book review, summarized: "Many corporations . . . lobbied hard to make sure government's interventions in the economy yielded limits on competition, subsidies, and other business advantages. [It is] a hard-to-accept truth: business is a major source of the anti-market thinking and policies that make a lot of big companies unable or unwilling to cope in a competitive world."[23]

A Needed Change in "Business Ethics"

Business firms don't seem to make much effort to separate themselves from the po-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

litical process. Perhaps the growing number of socially responsible consumers and investors would flock to the products and stocks of firms that made a point of distancing themselves from all forms of business-government collusion. Imagine the following advertising pitch:

> We don't accept government subsidies, bailouts, low-cost loans, insurance, or other privileges. We don't lobby for laws that hurt our competitors. We actively oppose protectionism and invite all foreign competitors to try to underprice us. We do not lobby for tariffs, quotas, or anti-dumping laws. We do not support the government's budget deficits: Our treasury department holds no government or agency securities.

But for now, it seems that no such firm exists. Business-government collusion is a fact of the real world. It is possible only because the government has written so many detailed, intrusive laws in its perpetual attempt to micromanage all of our business activities. And government has a habit of applying these laws in arbitrary and capricious manner. That process allows some greedy businesses systematically to empower themselves at others' expense, using political pull to garner favors they could not otherwise have in a free market.

Those businesses must learn that people will learn to respect them if only they end their dependence on government privilege, and stand up on their own feet and face the economic reality of the world on their own terms. □

1. "The slings and arrows of outrageous fortune," *The Economist*, October 30, 1993, p. 25.

2. See, for example, Virginia I. Postrel, editorial, "Populist Industrial Policy," *Reason*, January 1994, pp. 4,6; John R. Emshwiller, "How to Lose Federal Millions and Owe Nothing," *The Wall Street Journal*, February 15, 1994, p. B1; Jeanne Saddler, "Agency Demands Restrictions on SBIC Bankruptcies," *The Wall Street Journal*, February 22, 1994, p. B2.

3. See, for example, "Grotesque: A Survey of Agriculture," *The Economist*, December 12, 1992, pp. 1–18; Chris Warden, "Do We Help Farmers Too Much?," *Investor's Business Daily*, July 29, 1993, pp. 1–2; and James Bovard, "Welfare for Millionaire Farmers," *The Wall Street Journal*, May 22, 1990, p. A22.

4. See, for example, "Cowboy socialists," *The Economist*, March 6, 1993, p. 16.

5. Thomas W. Hazlett, "Who's Behind the Cable Scam," *The Wall Street Journal* March 30, 1990, p. A10; and same author, "Why Your Cable Bill Is So High," *The Wall Street Journal*, September 24, 1993, p. A10.

6. See Bob Davis, "Clinton to Propose Nafta Bill Offering Trade Relief to Some U.S. Industries," November 3, 1993, p. A2; Bob Davis and Jeffrey H. Birnbaum, "Clinton Strikes Mexico Deals On Trade Pact," November 4, 1993; Jackie Calmes, "How a Sense of Clinton's Commitment And a Series of Deals Clinched the [NAFTA] Vote," November 9, 1993, p. A9.

7. "Regulate us, please," *The Economist*, January 8, 1994, p. 69.

8. *Ibid.*

9. Timothy Noah, "Smog-Control Plan to Emphasize Ethanol," *The Wall Street Journal*, December 15, 1993, p. A18.

10. Timothy Noah, "Ethanol Boon Shows How Archer-Daniels Gets its Way in Washington With Low-Key Lobbying," *The Wall Street Journal*, December 29, 1993, p. A10.

11. Randal Suttles, chief financial officer of Golden Rule Insurance Co., in 1992 phone interview.

12. Allen Krowe, vice chairman and chief financial officer of Texaco, quoted in Eric-Charles Banfield, "Powerful Persuaders," *Treasury and Risk Management*, Summer 1993, p. 21.

13. Review & Outlook, editorial, "Bite of the Apple," *The Wall Street Journal*, December 9, 1993, p. A14.

14. "Radicals at work," *The Economist*, November 6, 1993, p. 19.

15. Joseph L. Bast, "Corporate Subsidies and Illinois' Demise," *A Heartland Perspective*, October 19, 1989, p. 1.

16. Jacqueline Mitchell, "Judge Bars GM From Closing Factory in Michigan, Citing Local Tax Breaks," *The Wall Street Journal*, February 10, 1993, p. A3.

17. Eric-Charles Banfield, "Deposit Insurance Is a Dead End," *American Banker*, September 16, 1992, pp. 4, 7.

18. Gary S. Becker, Economic Viewpoint, editorial, "To Root Out Corruption, Boot Out Big Government," *Business Week*, January 31, 1993, p. 18.

19. See, for example, Phillip D. Brady, Regulatory Chokehold, "Our Friend, the Revolving Door," *The Wall Street Journal*, n.d., *circa* 1993.

20. Stanley S. Arkin, "Be a Good Corporate Citizen: Fight the Feds," *The Wall Street Journal*, March 13, 1990, p. A18.

21. Stanley Fischer, Rudiger Dornbusch, and Richard Schmalensee, *Introduction to Microeconomics, 2nd. ed.* (New York: McGraw-Hill, Inc., 1988), p. 237. The authors cite George J. Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science*, Spring 1971; and James Q. Wilson, "The Politics of Regulation," in J.Q. Wilson (ed.), *The Politics of Regulation* (New York: Basic Books, 1980).

22. Becker, *loc. cit.*

23. *The Wall Street Journal*, May 24, 1989.

1995 FEE Book Catalogue

The January 1995 issue of *The Freeman* contained our current 32-page catalogue, which includes more than 400 outstanding works of economic and social thought—more than ever before! Extra copies are available—call or write FEE.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

John C. Calhoun: Champion of Sound Economics

by William J. Watkins, Jr.

History teaches us that pernicious economic policies can destroy a powerful nation in a surprisingly short period of time. When a government uses tools such as currency expansion, debt, and high tariffs, eventually not even force will hold the nation together. Were we to heed the advice of statesmen from earlier eras, solutions to many of our most pressing problems would be clear. The first half of the nineteenth century is an excellent period to study in that many policies that were pursued greatly resemble recent economic misadventures. And of the statesmen fighting for sound economics during the turbulent years of the nineteenth century, John C. Calhoun was one of the most tenacious.

Though Calhoun battled valiantly for "Free trade, low duties, no debt, separation from banks, economy, retrenchment, and a strict adherence to the Constitution,"[1] historians do not consider him a champion of sound economics. Calhoun is remembered primarily for stalwart republican principles rather than his economic acumen. This is indeed a shame since the turbulent years leading to the Civil War were predominantly shaped by divergent opinions concerning the central government's intervention in the economic sphere of American life. As was the case in the time of Calhoun and the bloody war that soon followed, government's interference with voluntary exchanges between individuals in the marketplace inevitably leads to conflict.

Calhoun was born the son of a plucky Ulsterman in the upcountry of South Carolina and was molded by his pioneer kinsmen and Calvinist upbringing. After graduating Phi Beta Kappa from Yale College in 1804, he went on to study law. Always energetic, Calhoun found the practice of law pedestrian and soon made his entrance into public life.

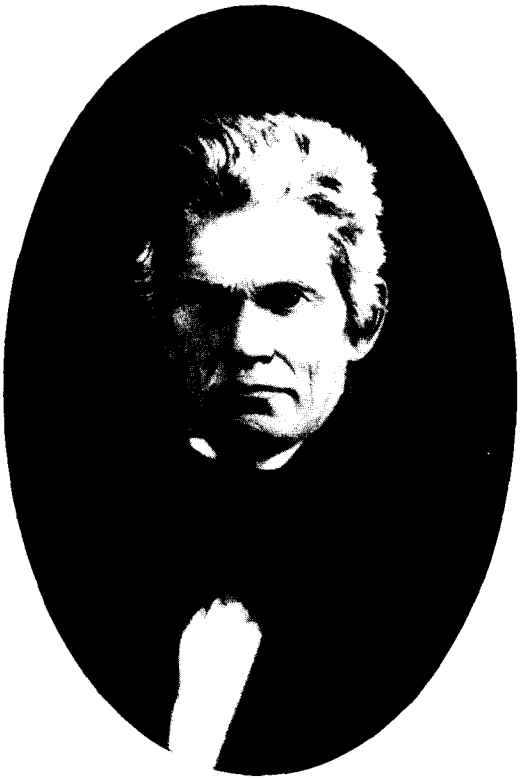
Early in his career in the national legislature, Calhoun had a reputation as a War Hawk and supported such unsound policies as internal improvements with federal funds, the national bank, and tariffs. With the aid of John Randolph and practical experience, Calhoun realized he had strayed from the principles of the founding era. Fittingly, it was the North's exploitation of the South vis-à-vis the tariff that awakened in Calhoun an understanding of basic economics.

The Free Trader

Of all the sundry conflicts between the sections in the 1800s, the issue of the protective tariff was the most fervently debated. Calhoun opposed protective tariffs

Mr. Watkins, a recent graduate of Clemson University, is Assistant Editor of The Freeman.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



John C. Calhoun

on constitutional and economic grounds. He believed that the powers delegated to the general government were trust powers rather than plenary and were consequently limited to the nature and the object of the trust. Thus, the power to levy tariffs can only be used to raise revenue to meet the legitimate expenses of government.

While addressing the Senate before the passage of the Tariff Bill of 1842, Calhoun argued that when tariffs are levied for protective purposes, government descends "from its high and appointed duty, and become[s] the agent of a portion of the community to extort, under the guise of protection, tribute from the rest of the community; and thus defeat[s] the end of its institution, by perverting powers, intended for the protection of all, into the means of oppressing one portion for the benefit of another."

An example of Calhoun's opposition to protective duties on solely economic grounds can be found in the same address. Calhoun had brought charts, which described what supply-siders would later call the Laffer Curve, to the floor of the Senate. He explained that on all items "which duties can be imposed, there is a point in the rate of duties which may be called the maximum point of revenue." He proceeded to show his colleagues how high tariffs coincided with a stagnation of interstate commerce and a decline of exports. The charts also illustrated how during periods of low duties, exports and key sections of the domestic economy grew.

Representing a state that depended upon the ability to sell her staples freely on the world market, Calhoun was unrelenting in the fight for free trade. "No people," emphasized Calhoun, "restricted to the home market, can, in the present advanced state of the useful arts, rise to greatness and wealth. . . . For that purpose, they must compete successfully in the foreign market. . . ."[2] As the spokesman for the Southern states, Calhoun asked for no special favors from government. He was confident that the South could succeed not "by the oppression of our fellow-citizens of other States, but by our industry, enterprise, and natural advantages."[3]

Sound Money

Essential to Calhoun's recipe for competing in foreign markets and maintaining prosperity at home was "a sound currency, fixed, stable . . . instead of an inflated and fluctuating one." Unlike modern America's followers of the "new economics," Calhoun understood the importance of a sound currency and realized that inflation robbed the working man of the fruits of his labor. Currency expansion, according to Calhoun, "overthrew the almost entire machinery of commerce, precipitated hundreds of thousands from affluence to want . . ." and corrupted private and public morals.

Moreover, a stimulus "caused by the expansion of currency . . . would tempt numerous adventurers to rush into the business, often without experience or capital; and the increased production . . . would

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

greatly accelerate the period of renewed distress and embarrassment. . . ."

With Misesian accuracy, Calhoun recognized the nature of artificial periods of growth and the inevitable readjustments that must always follow. In an 1838 oration in the Senate, Calhoun proclaimed: "Nothing is more stimulating than an expanding and depreciating currency. It creates a delusive appearance of prosperity, which puts everything in motion. Every one feels as if he was growing richer as prices rise. . . . But it is the nature of stimulus . . . to excite at first, and to depress afterwards."

Not only did Calhoun oppose governmental machinations with currency for economic reasons, but as with Congress' power to levy tariffs, the power to coin money and regulate its value was also viewed as a trust power. It would be a violation of the people's trust to devalue their money and thus rob them of their earnings. Calhoun, like the Framers who refused to give the general government the power to issue bills of credit, realized that government ought not be trusted to make a piece of paper worth "x" amount of dollars by decree.

Though he was an enemy of paper currency, Calhoun refused to add his voice to measures designed to tax the circulation of small notes from state-chartered banks and thus increase the specie in circulation. Such a tax to Calhoun was a violation of the people's trust. He prophetically articulated what such a penal power would do in 1834 during a speech against the continuation of the charter of the Second Bank of the United States. Government would have "an entire control . . . over the property and pursuits of the community," argued Calhoun, "and thus concentrate and consolidate the entire power . . ." in Washington. Even when given the opportunity to strike at the circulation of paper, Calhoun was true to his principles and refused to violate the people's trust.

Deficit Spending

Of course when one discusses fiat money, it is not overly bold to assume that debt was the cause or one of the major factors leading to the currency expansion. It is the nature of government to print more money when it spends beyond its means. Due to his years in the government, Calhoun realized the danger wrought by debt. As heroin is to the addict, so is deficit spending to government. And once government starts deficit spending, warned Calhoun, "we shall hear no more of economy and retrenchment, those two virtues so essential to a Republic and so necessary at the present time."

Calhoun saw that government's expenses ought to be kept as small as possible in order to preserve the Republic left by the Founders. "Every dollar we can prevent from coming into the Treasury," Calhoun wrote, "or every dollar thrown back into the hands of the people will tend to strengthen the cause of liberty."

It was this cause of liberty that provided the impetus for Calhoun to fight for sound economic policies. Due to the course of events following his death in 1850, it is understandable why Calhoun's grasp of economic matters has been ignored by historians. Certainly no victor wishes to heed the advice of the vanquished. Nonetheless, with our debt continuing to spiral, printing presses operating 24 hours a day, and demands for "fair trade" echoing throughout the halls of Congress, it is high time that we reconsider the wisdom of the "cast-iron man" from South Carolina. □

1. The seven points were used in his slogan during the presidential campaign of 1843.

2. Clyde N. Wilson, ed., *The Essential Calhoun* (New Brunswick, N.J.: Transaction Publishers, 1992), p. 213.

3. Quoted from the South Carolina Exposition and Protest. Ross M. Lence, ed., *Union and Liberty: The Political Philosophy of John C. Calhoun* (Indianapolis: Liberty Fund, 1992), p. 331.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Land Control as Mind Control

by John Chodes

Old Policies Still Plague Us

Can a Southern farmer's alleged racist values be transformed into "progressive" thinking (by Washington's standards) through changes in what he plants?

Can the development of new strains of crops, which can flourish despite extremes in temperature, re-educate that same farmer away from being an extremist (by Washington's standards) in his thinking?

The answers are "yes" and this story shows how the federal government's policies concerning supposed Southern racism at the end of the Civil War directly relate to major contemporary infringements on property rights that are constantly in the headlines today. The legislative mechanism set in motion to end racism in the 1860s has never stopped. It is still expanding and today we can see the consequences in several ways: in the ever-expanding government attacks on urban and rural property rights through illegal, unconstitutional direct confiscation and forced control of land use. And in the colossal subsidies to agriculture that have pushed up prices and pushed out most small farmers and created a gigantic, nationalized, monopolistic "agribusiness."

Let us begin our story at the beginning.

Mr. Chodes is the Communications Director for the Libertarian Party of New York City.

Crop Research as War Research

The year is 1862. The North battles desperately against the seceded South, which is the world's largest cotton producer. The Confederacy shuts off this vital commodity to the North, since it is critical for uniforms, blankets, tents, bandages, and other supplies. The South also shuts off rice and sugar cane, for food, to the Union armies. Without these basic commodities Washington's war effort is severely hampered.

Congress creates a new federal agency, the Department of Agriculture, to solve these life-and-death issues. In voting for this new agency, Senator Joseph Wright of Indiana stated its purpose clearly: "The cotton crop of the South cannot reach Northern spindles. Agriculture must furnish a substitute by the production of upland cotton in the Ohio Valley. The sugar and molasses of the South have ceased to come forward to the North and agriculture must remedy the difficulty by the rapid production of the Chinese and African cane."[1]

Mr. I. Newton, the first Commissioner of the Agriculture Department, echoed this sentiment as soon as this agency became a reality. "The culture of cotton has lately attracted much attention to the free states, especially in Illinois, owing to the rebellion and the consequent scarcity of the staple. Last summer, as a matter of experiment, 300 to 1,000 pounds of cotton were raised per acre, by many farmers in Illinois. This department will take early and active measures to induce farmers in Kentucky, Missouri, Southern Illinois, Indiana, and Kansas—all of which states will undoubtedly produce cotton—to turn their attention to the culture of this important staple."[2]

By 1864 the Commissioner reported that cotton, in Illinois, showed a 40 percent increase and "Sorghum and Imphee [sugar cane substitutes] and the dissemination of the seeds of these plants by the Agriculture Department has been worth millions of dollars to the country, especially to the middle and western states."[3]

Also: "Flax fiber can, by mechanical,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

chemical or other means, be converted into flax cotton of a substitute quality for use as a substitute for cotton in the mills of our country. The vast amount invested in the mills (nearly $100 million) and the absolute necessity of production . . . (create) the strongest claim upon the attention of the people and the government."[4]

Gradually a national policy emerged to break the North's dependence on cotton: "During the continuance of the War of the Rebellion, a great augmentation of the wool demand has attended the fitting out of more than a million of armed men, whose clothing is almost exclusively of wool. And when the war is over, men who have been accustomed to flannels and woolen garments in the field will, from choice, if not from necessity, continue their use in the workshop and on the farm." And "King Cotton has been dethroned, and his sudden toppling from his place of pride will not only destroy his political prestige, dim materially the luster of his commercial fame and detract from his industrial importance, but other textile products will be patronized, experimented upon and their use rendered fashionable."[5]

All this represented the opening phase of federal control of agricultural output by commanding farmers what to plant.

Educational research was another surprising area that the Department of Agriculture would investigate: "Every farmer should aim to be instructed . . . because knowledge is power and it is the highest wisdom of political economy to invest largely in schools. . . . the farmer should have taste to appreciate and enjoy the beautiful in nature and art."[6] Could "appreciating art and beauty" be a metaphorical policy statement about converting racist farmer's minds?

Education as War Research

Where did the Agriculture Department find the biologists, chemists, and scientists needed to find cotton and sugar substitutes? This was an era when most Americans only had grade school educations.

In response to this as well as for scientists for weapons research, Congress enacted a gigantic national-scale college level education program. The Morrill Act granted 30,000 acres of federal land to each state in the Union for each Congressman, for training in "agricultural and mechanic arts."

Several legislators saw the dangerous, anti-democratic precedent that the Morrill Act was setting and argued against its passage. Senator George Pugh of Ohio: "It is as much a violation of our duty to invade the province of our state governments under the head of donations as it would to invade it by force and violence."[7]

Senator James Mason of Virginia added: "Sir, to my conception, it is one of the most extraordinary engines of mischief, under the guise of gratuities and donations, that I could conceive would originate in the Senate. It is using the public lands as a means of controlling the policy of the state legislatures. . . . it is doing it in the worst and most insidious forms—by bribery, and bribery of the worst kind; for it is an unconstitutional robbing of the treasury for the purpose of bribing the states."[8]

When originally enacted, the Agriculture Department and the Morrill Act seemed to be two separate entities. But they would be connected: "The agriculture and mechanic colleges are destined to be powerful coadjutors in the legitimate work of this department [Agriculture]. . . . elevating the vocation of the farmer and giving him scientific as well as practical instruction in his pursuits."[9]

Land Control as Mind Control

It was 1865. The Civil War was over. There seemed to be no more need for new crop research. Yet, while Reconstruction had begun, the war wounds had not healed. The rebels, although defeated, still believed in "The Cause" and that "The South will rise again!"

This caused great concern in Washington, which now focused on how to re-educate the rebels so that they would never again secede.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Senator Charles Sumner of Massachusetts: "Such is the mood in the South now, that education will enter into every measure of Reconstruction."[10]

General Lorenzo Thomas testified before a Congressional Committee concerning the postwar attitude of the former rebels. Senator Robert Baldwin asked him: "Do you have any reason to believe that the rebels still entertain hopes of another outbreak?"

Thomas: [They plan to] "do all in their power to involve the United States in a foreign war, so that if a favorable opportunity should offer itself, they might turn against the United States. . . . their desire is to re-establish the Southern Confederacy."[11]

Representative Ignatius Donnelly of Minnesota said: "The great bulk of the people of the South are rude, illiterate, semi-civilized . . . and . . . republican government, resting on intelligent judgement of the people, [is] an impossibility."[12]

This meant education controlled by Washington. It meant federal money for new schools, creating new "progressive" textbooks and nationalizing existing Southern school systems. Congressional Reconstruction policy forced new constitutions on all the former rebel states, including the provision for tax-supported free schools, to be supervised forever by the federal government.

Senator Charles Sumner again: "Shall the Southern states still be controlled by the men and the policy that have already brought ruin and disgrace, poverty and starvation upon them; or shall they adopt the policy of the enlightened states of the North . . . and secure universal education and free schools with their inevitable accompaniments of enterprise, equality, wealth, temperance, morality, religion, public, private, and domestic happiness."[13]

Simultaneously Washington formulated another re-education plan for the South. Congress saw in the word "cotton" the living metaphor for why the war began and why the spirit of rebellion would not be extinguished. Cotton endlessly reminded Southerners of the philosophies that drove them to secede: slave labor, states' rights, restrictions of government power, and free trade. These views had been repudiated as the postwar United States became a centralized, protectionist world leader. Thus, cotton would have to be diffused among new crops and its geographic position transformed to end Southern "reactionary" perspectives.

This statement indirectly says that cotton caused the rebellion: "In the reorganization of the Southern states, it is believed that the great mistake of the past, the concentration of labor mainly upon a single branch of a single grand division of productive industry, (cotton) will be avoided. This mistake has cost that section one-half the wealth it might have attained and may have led to the sacrifice in war of the remainder. . . . diversification must be applied to reorganized Southern agriculture. . . . cotton will never again overshadow and dwarf other interests essential to permanent success in agriculture."[14]

During the war a Confiscation Act allowed the military to take the property of "traitors." Cotton plantations were expropriated since cotton was held responsible for the rebellion.

Representative Justin Morrill of Vermont: "[The Confiscation Act] proceeds from the assumption that the insurrection is incited by a faction in the slave states, holders of the vast proportion of the property and slaves in these states, that this property and these slaves constitute the incentive and form the material base of the rebellion; and that therefore it becomes the right and the duty of the nation, from the height of its extreme authority, to award the penalty of condemnation of estates and forfeiture of control of persons to those who conspire against the government and make war on its authority."[15]

The Commissioner of the Agriculture Department allegorically stated the need to diffuse Southern crops to transform Southern minds: "[In] the great Chinese Empire, hundreds of thousands have perished miserably because of the failure, in certain sections, of the rice crop, on which alone

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

they depend for subsistence. This enforces most emphatically the wisdom of diversity of agricultural products."[16]

The master plan for enforced geographic crop redistribution came from a new section of the Agriculture Department. It was euphemistically called the Division of Ornithology and Mammology. Its stated objective was to "enable our farmers to select the crops best suited to their localities . . . agriculture and biology must be studied from the geographic standpoint. . . . our aim is to explain the distribution of animals and plants by means of knowledge of the conditions which govern this distribution."[17] Was racism one condition which governed this distribution?

To fulfill this grand plan, the Morrill experiment stations and the Agriculture Department once again fused their operations but now on a permanent basis: "National legislation has been proposed [The Hatch Act] to extend the work of experimental agriculture, establishing it in every state . . . believing that the Department of Agriculture can become a vitalizing center, for a more general cooperative effort for the promotion of agricultural science . . . I have endeavored . . . to organize a branch of this department to take charge of the returns from these colleges and (experiment) stations and to collate and distribute the information obtained for the benefit of all interested parties."[18]

Cotton, Abandoned Land, and Refugees

Congress developed five simultaneous policies to erase "cotton" from the Southern mind.

1. Cotton would be raised by non-Southerners in the South.
2. Southerners would be forced to plant new "mentally noninflammatory" crops.
3. The South would be repopulated with Northerners to defuse racism and rebellion.
4. The South would be repopulated with European immigrants.
5. "Racists" would be deported to Northern states to live with "progressive" ideals.

To administer this all-encompassing national program, an appendage to the War Department was created: The Freedmen's Bureau. Supposedly it had the great humanitarian objective of helping the emancipated slaves develop the skills to survive in a competitive marketplace.

But this new agency's full title gives a truer picture of its role in the ongoing saga of cotton, land, and racism: "The Bureau of Freedmen, Abandoned Lands and Refugees." This shows the extent of its jurisdiction; over four million ex-slaves and over tens of millions of whites (the "refugees" supposedly displaced by the war). The "Abandoned Lands" referred to the millions of acres of private property illegally confiscated as abandoned when the Union army forcibly captured it or evicted or killed the owners. Thousands of Southerners were accused of being traitors and convicted without a jury trial, then jailed or executed and their property seized.

The Freedmen's Bureau became a reality in the final stages of the war and its widespread powers were completely unconstitutional during peace time.

Senator James Doolittle of Wisconsin, in voting for it, said: "This whole bill is a kind of war measure, a war necessity. If peace existed in these states, no one pretends that we could exercise any such powers (confiscation) either over the people of these states or over the property within these states. It is of necessity, temporary in character."[19]

Yet the Freedmen's Bureau existed for many years beyond the end of the war. In fact, as we shall see, its demise is uncertain because it was partially funded without Congressional approval or taxpayer knowledge.

Senator Thomas Hendricks of Indiana showed the dangers that this new agency posed: "I don't believe that the Congress of the United States has the power to take charge of a portion of the community . . . such a power would swallow up a very large

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

extent a very important portion of the powers enjoyed by the states. (Mr. Hendricks read section two of the Freedmen's Bureau bill:) 'The Commissioner shall have authority . . . to create departments of freedmen.' A new division of the country! . . . the states are to be cut up and to be placed under the charge of commissioners . . . here is a government within a government . . . independent of the states and almost independent of the ordinary machinery of the federal government, there shall be a government established for the control of the inhabitants of a particular class . . . the colored people that may become free, to be under the supervision, to a large extent, of these superintendents. And yet they are to be free!"[20]

The Commissioner of the Freedmen's Bureau was Oliver Otis Howard, a Union army general. Here he describes his agency's enormous power: "The law establishing the bureau committed it to 'the control of all subjects relating to the refugees and freedmen from rebel states' . . . this almost unlimited authority gave me great scope and liberty of action . . . legislative, judicial, and executive powers were combined in my commission . . . (I controlled) all abandoned land solely for the purpose of assigning, leasing or selling them to refugees and freedmen . . . of the nearly 800,000 acres of farming land and about 5,000 pieces of town property transferred to the bureau by (the) military . . . enough was leased to produce a revenue of nearly $400,000."[21]

General Howard is talking about this one year only. Another report showed that annual revenues generated were over $2 million. By today's standards that is more like $2 billion.

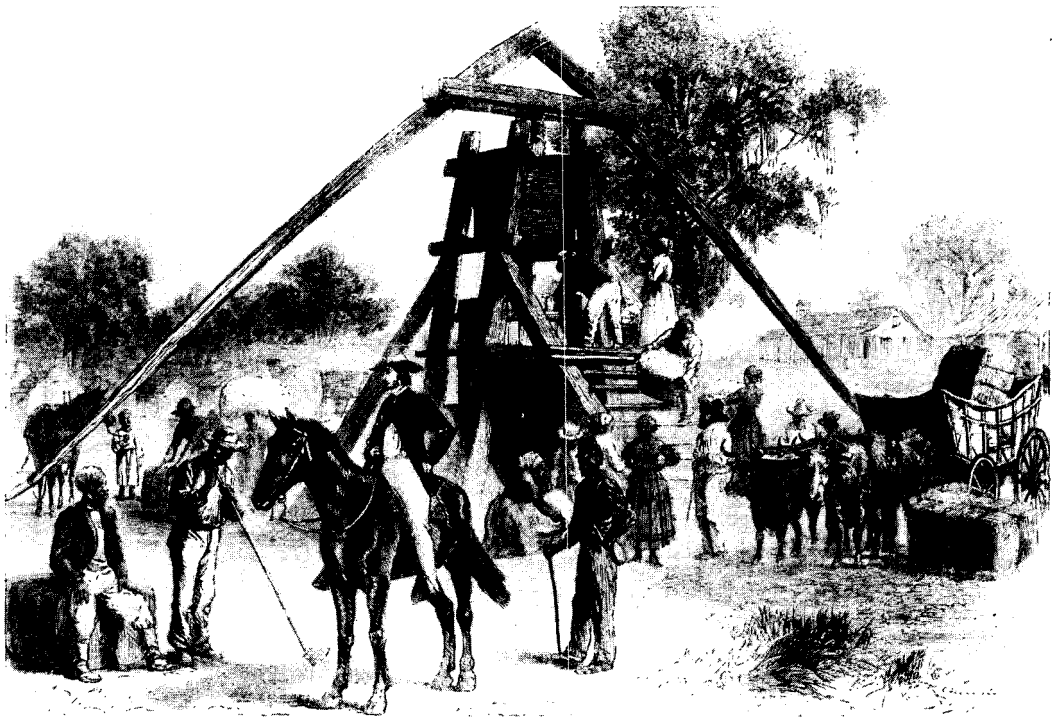
This power also extended, unconstitutionally, into the North. The brutality of martial law and the confiscation of property reached into the Union in peace time. Senator Hendricks: "I believe (The Freedmen's Bureau) has extended its jurisdiction over the states not within the provision of the law. I believe Kentucky [a Union state] has been brought within the scope of its government, when the law did not contemplate it and did not allow it. I believe the District of Columbia has been a province within its government and control and I think the law did not contemplate or allow that . . . this irresponsible sub-government . . . (is) upon the people of the entire United States by a body of men protected by the military power of the government." (Mr. Hendricks discussed the eighth amendment of the Freedmen's Bureau bill; court martial tribunals for citizens, in peace time, in all states of the Union:) "Now that peace is restored, now that there is no war, now that men are no longer under military rule, I want to know how such a (military) court can be organized; how is it that a citizen can be arrested without indictment and brought before officers of this bureau without a trial, tried without the forms which the Constitution requires."[22]

Replanting as Re-Education

Reforming the Southern mind meant replacing cotton with new crops. John Stokes, Commissioner of the Agriculture Department said: "The distribution, under the special appropriation of $50,000, to be expended in seeds for the Southern states, was promptly and fully made in accordance with the views and intentions of Congress, through specific agents, sent through the Southern states, postmasters, prominent citizens and the officers and agents of the Freedmen's Bureau . . . these states can produce every article grown in the higher latitudes . . . [and] cotton, sugar, hemp, rice."[23]

Under a false and ironic sentiment of charity, Congress passed a resolution "For the Relief of the Destitute of the Southern and Southwestern states." This actually reflected the forcing of new crops into those states: "This resolution proposes to empower the Secretary of War to issue supplies of food (and also seeds) to prevent starvation and extreme want among all the classes of the people of the Southern and Southwestern states, where a failure of the crops or other causes have occasioned widespread destitution; the issues are to be made through the Freedmen's Bureau."[24] This

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Baling cotton in the Old South

is misleading since cotton and tobacco, not food, were the main crops of the South. This is verified by Representative Fernando Wood of New York, in his comments about this resolution: "In a recent visit I made to the Southern states . . . during which I made it my duty to observe the Southern people in a very large portion of the Atlantic Southern states, I saw no such destitution as has been described. I saw no class of people . . . who would make application to Congress for alms or would acknowledge themselves as paupers and dependents upon the General Government for aid or support."[25]

Repopulation as Re-Education

A vast Northern population was transplanted into the South to farm cotton and "non-racist" crops. This required far-reaching brute force. It meant breaking up the huge cotton plantations into fragments for small-scale individual family farming.

Representative George Julian of Indiana: (There is an) "Incompatibility of this system of land monopoly with the wellbeing and safety of Republican institutions and (we) should doom it to immediate annihilation. . . . who can doubt that if the 200 or 300,000 honorably discharged soldiers now in the North were settled on the forfeited estates in Tennessee, Arkansas, Virginia and wherever our armies occupy . . . form a reserve corps to our army . . . such a population . . . would stand as a breakwater against (which) any returning tide of rebellion might dash itself in vain."[26]

This required indicting Southerners as traitors and confiscating their property. John Henderson of Missouri grasped the consequences: "I have no objection to confiscating the property of the rebel . . . let it be done when guilt has been established under the forms of judicial investigation . . . if we depart from (the Constitution's) just restraints, no man can tell the excesses of the future . . . in the plenitude of power today, we may deny mercy to others; tomorrow we ourselves may cling in vain to the horns of the altar . . . the inventor of the guillotine, we are told, was so forced to test the merits of his own invention."[27]

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Mass Nationalization

The Freedmen's Bureau became the central agency for this mass nationalizing of Southern and Northern property. By the 1890s "nearly 2 million of farms of 80 acres each in the United States had been given away by the government."[28]

Census data demonstrates the efficiency of confiscation and the breaking up of large plantations. In the South Atlantic states in 1860 there were 301,940 farms. By 1900 this had been transformed into 962,295 farms. In 1860 there were 370,373 farms in the South Central states. By 1900 this had become 1,658,166 farms.[29]

Presented another way, the census data showed how confiscation was responsible for drastically reducing the size of property holdings. In 1860 the average number of acres per farm was 352.8, in the South Atlantic states. This had been reduced to 108.4 by 1900. In the South Central states, in 1860, that figure was 321.3. By 1900 it had dropped to 155.4.[30]

President Andrew Johnson pointed out the consequences when the military is given the power to confiscate property without civil restraint: "The power thus given to the Commanding Officer over all the people . . . is that of an absolute monarch. He alone is permitted to determine what rights of persons or property . . . it places at his disposal all the lands and goods in his district and he may distribute them without let or hindrance to whom he pleases. Being bound by no state law, and there being no other law to regulate the subject, he may make a criminal code of his own, and he can make it as bloody as any recorded in history. . . . Everything is a crime which he chooses to call so and persons are condemned who he pronounces to be guilty . . . he may arrest his victims wherever he finds them, without warrant, accusation or proof of probable cause. . . . Congress [has authorized] military jurisdiction over all parts of the United States containing refugees and freedmen [with] . . . no limitation in point of time, but will form a permanent legislation of the country."[31]

Confiscation as Bill of Attainder

Permanent confiscation of a traitor's property is unconstitutional. It is a Bill of Attainder, a medieval legal weapon that destroys both property and civil rights. It was an inherent part of the Confiscation Act. Senator Edgar Cowan of Pennsylvania illuminated the process: "Shall we go back to the doctrine of forfeiture which marks the Middle Ages?. . . . The number engaged in the rebellion [is] equal to one-half of the whole population of the Confederate states; say 4 millions . . . if so, to strip all this vast number of people of all their property . . . will reduce them at once to absolute poverty. . . . if there was anything calculated (to make them) forever hostile to us, it would be the enactment of such a law . . . [The Constitution provides that] 'The Congress has power to declare the punishment of treason, but no attainder of treason shall work corruption of blood or forfeiture, except during the life of the person attained.' Here is an attempt to deprive a large class of persons of all their property without any arrest, without any presentment by a grand jury, without a trial by a petit jury, without indeed any trial at all in any court . . . Bills of Attainder forfeited [traitors'] estates and corrupted the inheritable blood of the children and heirs (by compelling them) to bear the disgrace attendant upon such flagitious crimes . . . one of the strongest incentives to prosecute treason has been the chance of sharing in the plunder of the victims."[32]

Immigration as Re-Education

To disperse dangerous Southern "reactionaries," some of their confiscated land was to be resettled by European immigrants. This began with new legislation, The Immigration Act of 1864. Senator John Sherman of Ohio introduced it this way: "The bill provides for the appointment . . . of an officer to be styled the Commissioner of Immigration, [who will] collect . . . information in regard to . . . the wants of agriculture . . . and to disseminate such

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

information throughout Europe . . . [He] is to make contacts with different railroad and transportation companies for transportation tickets to be furnished to the immigrants to enable them to proceed in the cheapest and most expeditious manner to the place of their destination, or where this is undetermined by the immigrant, to the place where his labor will be most profitable."[33]

Justin Morrill saw a darker side to this bill: "We import everything else, now we have come to the importation of men. [There is] an apprehension in the public mind that this was another species of slavery."[34]

Senator Reverdy Johnson of Maryland showed how the immigrant was locked into staying on a specific property for a definite period: "The Immigration Act . . . says to the man in Europe who wishes to come to the United States but has not the means of coming of his own, [that Washington will advance him the fare] to be paid back within 12 months; and shall be a lien at all times upon any real estate which he may acquire, so as to constitute it in the nature of a mortgage."[35]

Barnas Sears, the General Agent for the Peabody Education Fund, observed this Southern immigration: "The tide of immigration into (Texas) is constantly swelling. While I was there, every steamer that arrived was crowded with immigrants . . . they came from almost every part of Europe . . . the Germans are the most numerous . . . large communities of them are settling in the Western portions of the state."[36]

By the 1870s immigration reached tidal wave proportions. "Net immigration of the last 8 years: 2,792,383."[37]

"The era of substantial progress for the South may indeed be said to have commenced with the termination of the war, which obliterated the system of compulsory labor and the monopoly of production of great landed proprietors . . . the division of lands into small tracts . . . (will) attract the immigration which is the invigorating life of states."[38]

Justin Morrill also pointed out that enforced immigration would further distort the power balance between the federal and state governments. The Bureau of Immigration, Morrill said, would "encourage migration from the populations of Europe, by the authority of the general government, the distribution of which is contemplated by this bill to be made in all sections of the country . . . without the slightest reference to consulting the states upon the subject."[39]

Relocation as Re-Education

Another way to transform the Southern racist mind away from the siren song of cotton, was to relocate them in the North. General John Eaton of the Freedmen's Bureau, and later Commissioner of the Bureau of Education, noted: "Cairo (Illinois) . . . served as a portal through which thousands of poor whites and negroes were sent into the loyal states as fast as opportunities offered for providing them with homes and employment. Many of these became permanent, residents . . . [Those who refused to work] were kept under military surveillance and guided authoritatively toward some definite means of self-support . . . the educational influences of the change was noticeable and most important . . . Returning South, after perhaps a year's absence, to the neighborhood of their former homes . . . [the] transformation through living in the midst of the industries of the North was really very great. They had made the discovery that the possession of a vast property and the ownership of slaves . . . was not essential either to self-respect or social standing."[40]

Senator Charles Buckalew of Pennsylvania presented the other side. The Freedmen's Bureau, he said, "contemplates the distribution of this population [refugees and former slaves] throughout the whole country and in our Northern states . . . [They] may object to such an exertion of power or rather a perversion of power by this government . . . I think the proposition, upon the mere statement of it, is so monstrous, and in its effects, so pernicious, that it ought to receive no favor or indulgence from this body."[41]

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NOTES FROM FEE

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Tel. (914) 591-7230
Fax (914) 591-8910

February 1995

Social Security

Politicians love it because it buys votes and re–elections. They fear it because it may spell defeat and ruin to those who dare to question its meaning and reflect upon its consequences. It raises all kinds of political double–talkers who falter every time it is merely mentioned.

Social Security was born of politics as a full–employment measure of the Roosevelt New Deal. As such it failed dismally, for mass unemployment is still with us, plaguing several million Americans. Instead, it has become the most powerful political welfare system ever devised, delivering trillions of dollars from the working population to some 30 million persons along in years. The Medicare system, which was added in 1965, provides comprehensive health-care coverage for more than 35 million people age 65 and over. Altogether, 45 million Americans, almost one out of every six, partake of one or several kinds of programs. More than 130 million taxpayers are forced to pay for it.

The Social Security Act was signed by President Franklin D. Roosevelt in 1935. The first retirement benefits were paid in 1940 to Ida May Fuller of Vermont. She had paid in a total of $24.95 and got back $20,897 before her death in 1975. Later retirees who made full use of Medicare reaped six–figure amounts.

Social Security is a giant welfare system although its beneficiaries are quick to call it an insurance program. "I paid in, I contributed, I earned my benefits." This is the most common argument in defense of the system. In reality, simple calculation easily ascertains that most beneficiaries withdraw in several months what they contributed. The maximum contribution from 1937 through 1949 amounted to one percent on $3,000 annual income, or $30 a year. In 1950 it rose to 1 1/2 percent, or $45, and thereafter continued to creep up in small increments. Few old–timers, if any, contributed more than $1,000, with interest on interest, during their working years. Living in retirement now, and having received the equivalent of their contributions from the system, they are drawing public assistance for the rest of their lives.

Every political transfer system divides society into two distinct social classes: the beneficiaries of the transfer and the victims who are forced to bear the costs. It creates insoluble political and economic conflict which grows with the magnitude of the transfer. The Social Security System is the source and breeding place of the most poisonous and virulent social conflict, a conflict that is growing steadily as the victims become aware of the burdens placed on them.

While the first generation that launched the system won the prize and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

carried off a fortune, all others who follow are condemned to square the account. The Social Security Amendments of 1977 greatly raised payroll taxes to cover the rising costs and create a $4 trillion surplus in the Social Security Trust Fund. Since 1977 tax rates and tax basis have risen nearly every year and now amount to 15.3 percent of gross wages up to $60,000, or $9,271.80 a year.

Young people are forced to contribute much more than they can ever expect to draw out. They face the distressing choice between suffering the losses inflicted by the first generation and shifting the burden to future generations through ever higher taxes on them. Yet, no matter how frantic the shifting, it does not square the account.

The dilemma is giving rise to numerous reform proposals. Most merely are new concoctions of the same old transfer system, searching for new victims for old beneficiaries, reorganizing the bureaucracy and appointing new administrators. There can be no genuine reform of the Social Security System until we become aware of its true meaning and significance. To this end the following proposals may shed some light and return to the basics of a moral order:

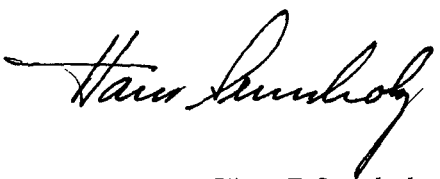
1. Information to Recipients — To restore a commonplace truth and realism, every recipient of Social Security benefits should be informed of the nature and source of his benefits. Every check should carry a stub that reveals the dollar amount contributed to the System by him and his employer and the cumulative amount of benefits received by him as of that check.

2. Means Test Applied — When the total benefits exceed the contributions made during the productive years, the recipient should undergo a means test. A millionaire who has received an amount equal to his contributions should receive no more. A poor retiree who is lacking the means of support should continue to draw his benefits. But they should be truthfully called "Social Security assistance."

3. Parent and Child — When Social Security assistance seems to be called for, the children of a retired worker should be given an opportunity to contribute to the support of their parents. As the parents are responsible for their children, so are children responsible for their parents. No Social Security System should eradicate this moral law and Biblical commandment.

4. Freedom of Choice — Social Security builds on legislation, regulation, taxation, and all means of force. Tolerating no resistance it exacts an ever–growing share of individual incomes. If it could be made to suffer just a modicum of freedom, it would permit recalcitrant members to depart and find their own security. Millions of Americans are waiting anxiously for the day when they will be free. They would forego all promises of benefits in the future for the joy of freedom today.

Reformation is a work of time. A national institution, however wrong and harmful it may be, cannot be totally changed at once. We must first shed light on its true nature and, above all, reveal its immoral foundation.



Hans F. Sennholz

If you ask, the Social Security Administration will send you a statement telling you how much you have paid in. You can then compare this amount with your estimate of benefits received, including those of Medicare.

If the benefits exceed the payments, you are receiving public assistance.

To get your statement, call 1–800–772–1213.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Spring Round Tables

Reserve these days for our spring 1995 series of Round Table events! We've set up an exciting lineup of speakers for your enlightenment that includes Dr. Jane Orient and Dr. Mark Skousen. Don't miss these stimulating evenings, which begin at 5:00 with a reception and dinner, and then go on to a lively discussion session. Charge: $40 per person per event; certain discounts are available.

March 4 with Jane Orient, M.D.
April 1 with Joe Sobran
May 6 with George Reisman
June 3 with Mark Skousen

Coming Seminars at FEE

Undergraduate seminar	**April 6–8**
Austrian Seminar (by invitation)	**July 9–14**
First Summer Seminar	**July 23-28**
Second Summer Seminar	**August 13-18**

Call or write: Dr. Barbara Dodsworth, 30 South Broadway, Irvington–on–Hudson, NY 10533; (914) 591–7230.

Light a fire for freedom! Launch a Freeman Society Discussion Club!

Join the growing ranks of *Freeman* readers who have become part of FEE's network of Freeman Society Discussion Clubs. At the beginning of 1995 more than 50 clubs had been organized in the United States and abroad.

Leonard E. Read once observed that rancid intellectual soil nurtures an unending variety of socialist fallacies and that "finding the right is the key to salvation." FEE is making the right both known and prevalent by launching discussion clubs nationwide, and by providing free literature and speakers to improve understanding of the moral and intellectual foundation of a free society. Club members receive a number of special benefits, including discounts on FEE publications and invitations to special FEE events.

For more information about starting a discussion club, or joining a Freeman Club that may already be meeting in your area, write Felix R. Livingston, Director of Freeman Services, 2814 Hilsdale Harbor Way, Jacksonville, FL 32216, or call/fax (904) 448-0105.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

New from FEE!

THE LUSTRE OF GOLD

Why is the gold standard viewed with disfavor by many? What is it that causes politicians and economists, such as John Maynard Keynes, to disparage and decry a monetary system which has been man's standard for thousands of years?

The gold standard is a monetary system in which gold is proper money and all paper moneys are merely substitutes payable in gold. It is as old as man's civilization. Throughout the ages it emerged again and again because man needed a dependable medium of exchange and gold was found to be such a medium.

The gold standard that builds on freedom does not fail of its own accord. It springs eternally from freedom but succumbs to force and violence. Its implacable enemy is government in search of more revenue.

The seventeen essays in this collection examine the rejection of gold, the history of the gold standard and private coinage in the United States, and the prospects for monetary reform. Contributors include Hans F. Sennholz, Mark Skousen, Henry Hazlitt, Elgin Groseclose, Robert G. Anderson, and Lawrence W. Reed.

150 pages + index **$14.95 paperback**

THE FREEMAN
IDEAS ON LIBERTY

1994 Bound Volume

Sturdily sewn in a single volume with navy blue cloth cover and gold foil stamping, the twelve issues from January through December 1994 — 720 pages, fully indexed for handy reference to the latest literature of freedom. More than 100 feature articles on topics such as education, environment, government regulation and control, health care, individual rights, morality and ethics, private property, voluntary action, and international trade. Reviews of more than three dozen books.

$19.95 each

Save! Special introductory price: $16.95, through March 15, 1995

Note: *Freeman* bound volumes for the years 1986 through 1993 are available at $16.95 each until March 15. (Regular price is $19.95 each.)

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Freedmen's Bureau had the first peace time federal education mandate. Overtly, it was to educate the ex-slaves so they could survive in a free society. Covertly, this education was to transform so-called racist whites. "A growing conviction prevails favorable to the introduction by the United States government of a general system of education for the states . . . Ignorance in the Southern states is one of the most serious obstacles in the way of a thorough reconstruction."[42]

Congress forced a federalized education into the South through new state constitutions which compelled tax-supported schools supervised from Washington. But initially Congress authorized no funds for this, either to the states or the Freedmen's Bureau, fearing taxpayers would balk at this great new centralization of power.

So the Freedmen's Bureau funded its schools without Congressional approval or citizen acceptance, setting the legal precedent for current off-budget funding methods: "2,118 schools [are] under the care of the Bureau . . . the expenses of the Bureau were met the first year with the proceeds of rents, sale of crops, school taxes, and tuition and sale of 'Confederate States' property. The amount raised from all these miscellaneous sources was $1,865,645.40."[43]

By law, all operations of the Freedmen's Bureau ended in January 1871, but off-budget funding made it self-supporting. It did not depend on the law to continue its existence. Representative Thompson McNeeley of Illinois was shocked to find this out: "In 1867, $800,000 was appropriated for transportation. And now [in February 1871, a month after its legal termination] the House is asked to appropriate $6,000 for 'transportation of officers and agents.' I thought this bureau was to come to an end some time . . . we have been promised from time to time that it should come to an end, yet in this bill there are appropriations to the extent of $139,000 to keep it up and continue it."[44]

As with many of its other unconstitutional operations, the Freedmen's Bureau confiscated property and nationalized existing schools in the Northern states, too: "There was, at the close of the last school term, in the 13 states lately in rebellion, and including Kentucky, Maryland, and the District of Columbia [all in the Union], 975 regularly organized schools, 1,405 teachers, 90,778 pupils."[45]

Soon civil government began to use the same off-budget techniques. This is from the "Minority Opinion" of the Reconstruction Committee, as to why the new Alabama state constitution was unconstitutional: "It is made the duty of the governor by an ordinance, which is not published with the constitution, for the information of the people . . . to organize 'immediately 137 companies of volunteer militia . . . all proceeds of the sale of contraband and captured property seized or captured by the militia shall constitute a part of the fund out of which they shall be paid,' thus inciting the volunteers to harass the people in time of peace by unlawful seizure to provide the means of paying themselves."[46]

When the Freedmen's Bureau federalized Southern schools, a new "progressive" curriculum was also needed. Where would it come from? It came from the Agriculture Department, which controlled the research of the Morrill colleges; not only crop research but all research. This meant that curriculum experiments were directed and distributed by the Agriculture Department; it meant that land control and mind control were now centralized in this one agency, which now had Cabinet-level status.

Direct mind control was now an important part of the Agriculture Department's mission: "Nature teaching has been introduced into the common schools . . . teacher's manuals and the textbooks for instruction in this branch are being prepared."[47] (Nature teaching, i.e., "science," emphasized what was observable; it stressed the here and now over the past. The past reflected things like racism, like the heroism of "The Rebellion." Progressive ideas were here and now ideas.) "The teaching of young children regarding the natural objects and phenomena about them may be so conducted as to lead them to see that a knowledge of nature

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

may be of practical benefit. Their minds will be early trained to recognize the ultimate relation between the scientific and practical knowledge," to erase the past.[48]

Federalizing of curriculum led the Agriculture Department to centralize school districts: "Progress is also being made in the movement for the consolidation of rural schools which has already resulted in improved conditions in schools in Ohio and Massachusetts, Iowa and other states."[49] Such consolidation made it possible to introduce nature study.

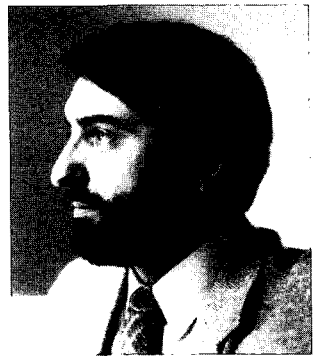
Conclusion

This story of land control as mind control relates directly to today. All law works by precedent. All current legislative enactments are based on law created in the distant past. Contemporary law does not spring forth without a grounding in something that already exists.

The present day small-time drug busts that often lead to the total confiscation of a person's private property—well above the legal limits of the crime—and the massive property takeovers by the IRS for small income tax irregularities, base their legal justification on Reconstruction-era laws and methods. Reconstruction has not yet ended. Now, as then, the politically incorrect must be re-educated or face the consequences—just as in the 1870s. □

1. The Congressional Globe, 37th Congress, 2nd Session (Washington, D.C.: Reprint Edition by United States Historical Documents Institute, Inc., 1970), p. 1690.
2. Annual Report of Commissioner of Agriculture, for the Year 1862, p. 22. The Annual Reports cited in this article were published by the Government Printing Office.
3. Annual Report of Commission of Agriculture, for the Year 1864, pages 4 and 11.
4. Annual Report of Commissioner of Agriculture, for the year 1862, p. 267.
5. *Ibid.*, p. 19.
6. *Ibid.*, p. 12
7. The Congressional Globe, 35th Congress, 2nd Session, p. 714.
8. *Ibid.*, p. 714. After Virginia's secession, Mason became a Confederate commissioner and gained fame for his capture during the "Trent" Affair.
9. Annual Report of Commissioner of Agriculture, for the Year 1868, p. 2.
10. The Congressional Globe, 40th Congress, 1st Session, p. 467.
11. The Congressional Globe, 39th Congress, 1st Session, p. 1827.
12. *Ibid.*, p. 3274.
13. The Congressional Globe, 40th Congress, 1st Session, p. 50.
14. Annual Report of Commissioner of Agriculture, for the Year 1866, p. 6.
15. The Congressional Globe, 37th Congress, 2nd Session, p. 1074.
16. Annual Report of Commissioner of Agriculture, for the Year 1878, p. 4.
17. Annual Report of Commissioner of Agriculture, for the Year 1888, p. 483.
18. Annual Report of Commissioner of Agriculture, for the Year 1886, p. 11 and Annual Report of Commissioner of Agriculture, for the Year 1885, p. 7.
19. The Congressional Globe, 38th Congress, 1st Session, p. 3327.
20. *Ibid.*, p. 3346.
21. Annual Report of Secretary of War, for the Year 1869, pp. 499 and 504.
22. The Congressional Globe, 39th Congress, 1st Session, pp. 315 and 318.
23. Annual Report of Commissioner of Agriculture, for the Year 1867, pp. x and xvii.
24. The Congressional Globe, 40th Congress, 1st Session, pp. 39 and 75.
25. *Ibid.*, p. 83.
26. The Congressional Globe, 38th Congress, 1st Session, p. 2108.
27. The Congressional Globe, 37th Congress, 2nd Session, p. 1569.
28. Annual Report of Secretary of Agriculture, for the Year 1896, p. xlvi.
29. 12th Census of the United States, 1900, Vol. 5: Agriculture (Washington: U.S. Census Office, 1902), "Number of farms by geographic division," Table I, p. xvii.
30. *Ibid.*, "Average number of acres per farm by geographic division," Table III, p. xxi.
31. The Congressional Globe, 39th Congress, 1st Session, p. 463.
32. The Congressional Globe, 37th Congress, 2nd Session, p. 1049.
33. The Congressional Globe, 38th Congress, 1st Session, p. 865.
34. The Congressional Globe, 39th Congress, 1st Session, p. 4040.
35. *Ibid.*, p. 4042.
36. Proceedings of the Trustees of the Peabody Education Trust Fund, Report of the 8th Meeting, 1870 (Boston: Press of John Wilson and Son, 1875), p. 191.
37. Annual Report of Commissioner of Agriculture, for the Year 1874, p. 899.
38. Annual Report of Commissioner of Agriculture, for the Year 1868, p. 465.
39. The Congressional Globe, 38th Congress, 1st Session, p. 3330.
40. John Eaton, *Grant, Lincoln and the Freedman* (New York: St. Martin's Press, 1903), p. 37.
41. The Congressional Globe, 38th Congress, 1st Session, p. 3329.
42. Annual Report of Secretary of War, for the Year 1867, p. 673.
43. Annual Report of Secretary of War, for the Year 1869, pp. 506 and 509.
44. The Congressional Globe, 41st Congress, 3rd Session p. 1530.
45. Annual Report of Secretary of War, for the Year 1866, p. 716.
46. The Congressional Globe, 40th Congress, 2nd Session, p. 510.
47. Annual Report of Secretary of Agriculture, for the Year 1898, p. xviii.
48. Annual Report of Secretary of Agriculture, for the Year 1900, p. 175.
49. Annual Report of Secretary of Agriculture, for the Year 1902, p. CI.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



To Educate—Or Legislate?

These are dizzying days for those of us who have grown gray and weary in the battle for individual liberty.

As I write, the President is publicly jousting with congressional Democratic rivals, and with Republican opponents, over competing initiatives to shrink government, cut spending, and reduce taxes. The current argument among politicians is no longer *if* such cuts are necessary, but *where* and *how much* to cut.

That's a stunning change from the not-too-distant past, when the very idea of limiting and reducing government was considered out of the question—when the only public debates were over which government agencies to inflate, which program budgets to fatten, which new regulations to impose, and which taxes to hike.

I think politicians are reflecting a philosophical sea change, a turnabout of popular attitudes that has transformed the nature of the debate over the very purposes of government. Some free marketers, though, are more skeptical of the fundamentality and scope of this intellectual shift.

They point out that none of the warring political factions yet propose complete and consistent laissez-faire capitalism. None are trying to terminate popular middle-class "entitlements," such as Social Security and Medicare, or to end governmental "transfer payments"—what the great nineteenth century economist Frederic Bastiat called "legalized plunder." After all the new politicians' tinkering is done, say these skeptics, much of the welfare state will remain intact.

In their view, the radical goal of laissez-faire capitalism implies equally radical political tactics: immediately abolishing all immoral government programs. Halfway reforms, they contend, amount to compromising on moral principles. "The lesser of two evils is still evil," they insist.

That argument sounds seductively logical. But is it true that there are no contextual distinctions between *political ends* and *political means*? Is it true that moral consistency implies immediate abolitionism?

Opposing the abolitionists are the gradualists—in whose camp you may count me. Gradualists draw contextual distinctions between ends and means . . . and they reject the charge that they are "moral compromisers" for doing so.

I, for one, don't disagree with the radical goal of implementing complete laissez-faire. I share with abolitionists the view that capitalism is the *only* social system morally compatible with the nature and needs of individuals. In short, I support laissez-faire capitalism on grounds of moral principle.

However, I disagree that the transformation to pure capitalism can be made overnight, through a program of immediate ab-

---

Mr. Bidinotto, a Staff Writer for Reader's Digest, *is a long-time contributor to* The Freeman *and lecturer at FEE seminars.*

Criminal Justice? The Legal System Versus Individual Responsibility, edited by Mr. Bidinotto and published by FEE, is available at $29.95 in cloth and $19.95 in paperback.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

olition of all statist injustices. I also disagree that an agenda of "halfway measures"—reforms that move us incrementally but steadily in the direction of total liberty—necessarily implies a lack of principle.

Gradualists, too, are utterly uncompromising about our ends: we support no measures that would move us one more inch in the direction of statism. However, in moving toward a freer society, we're certainly willing to compromise, if necessary, on the day-to-day pace or extent of change. We're willing to accept "half a loaf" rather than no loaf at all.

Such *tactical* compromises are not *moral* compromises. Moving just one step in the wrong direction is a moral compromise. But moving only one step—rather than ten, or one hundred—in the right direction, is not a moral compromise: it's a tactical agreement among people over *how much good can be done* in a given context. Similarly, if one can't stop or abolish an evil initiative or program, it's not a moral compromise to try to blunt its destructive impact, rendering it less harmful. A tactical compromise over *how much bad to avert* in a given situation is not a moral compromise, either.

In short, doing some good is better than doing none. Why do abolitionists contend otherwise? I think they've failed to distinguish between two vastly different contexts: education and politics. It is one thing to educate; it is quite another thing to legislate.

All of us in the field of persuasion wear the hat of educators. As educators, we can—and should—be one hundred percent uncompromising in our philosophical messages. Indeed, we can afford to be: as individuals, we answer to no one else. We need not pull our punches. We can, and should, say bluntly and uncompromisingly that the initiation of force, fraud, or coercion by government is always wrong—that any governmental program or policy which entails such practices must end.

However, politicians are not educators. They wear a different hat: that of *public representatives*.

Somebody once said that "politicians, like water, cannot rise higher than their source." In a representative government—by the very nature of the democratic process—politicians are followers, not leaders, of public opinion. If it's true, as Ludwig von Mises argued, that the marketplace is a democracy in which consumers rule by voting with their dollars, it's also true that a democracy is a marketplace in which consumers shop in voting booths for the government personnel and services they want.

So it's useless to blame politicians, ultimately, for the state of our government. They can rise in office only by reflecting the popular will, and will fall by defying public expectations. Even the greatest of statesmen can advance against popular winds only so far, before being swept aside.

Likewise, unless sustained by popular opinion, political reforms will come undone. That's why even the best politicians, committed on principle to laissez-faire, may have to curb their radicalism, mute their words, and take the best they can get in a given fight. This does not mean that they are immoral or spineless; rather, they simply realize that they wear a bridle of accountability, and that the voters hold the reins.

If so, then abolitionists err by focusing their energies in the field of *politics*. Trying to effect change by launching new political parties, running for office on a laissez-faire platform, or working to abolish Social Security and the income tax, are efforts wasted.

Likewise, they are wrong to blame good politicians for not being radical enough. Political reform must be rooted in public attitudes. If incoming politicians are still not going far enough (and they aren't), it's only because their masters aren't yet ready for more dramatic change.

There has indeed been a revolution in the political marketplace, with "consumers" demanding major reforms. But we still have much persuading to do before citizens come to accept our ultimate vision of a totally free society.

Before we are ever given the power to legislate, we must first educate. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Self-Control, Not Gun Control

by Catherine Farmer

Disarm Americans. Force every law-abiding citizen to surrender all firearms and America will at last be a safer place to live. Sounds absurd doesn't it? But the anti-gun lobby, fueled by misinformation—and the FBI's unprecedented political support of gun control—is effectively eroding Americans' constitutional right to keep and bear arms.

Passage of the Brady Bill was strategically important. Brady II, which will require federal licensing and registration of all guns, has been submitted to Congress. We can expect more restrictive legislative initiatives to follow.

Meanwhile, Americans are fearful, almost desperate, as they are assailed with reports of an exploding crime wave.[1] Proponents of gun control promise safety and protection in exchange for our civil liberties. That's not a new promise, but it is an empty one. All totalitarian regimes disarm their citizens.

Routinely, superficial theories are offered to explain the orgy of violent crime in our nation. The fundamental reason is ignored. Self-control—not gun-control is the key to preventing anarchy in America.

Mrs. Farmer is a free-lance writer living in St. Francisville, Louisiana.

It's Up to the Individual

Personal accountability has virtually been abandoned in our social structure and is conceptually absent for an entire generation of young Americans. Amid a web of informational overload, one message is paramount. The moral standards, and internal restraints inherent in historic Western culture are obsolete. Human behavior has been officially unleashed. And if, in a hedonistic tantrum, one goes beyond the ever increasing limits of acceptable conduct, one need not look far for absolution. Society, biology, psychology, racism, sexism—anything—except the individual is now responsible.

It is as natural, and in their hands as deadly, for such a deviant to use a knife, a hatchet, a club. The Gainesville student murders are a case in point. Gruesome details of rape, stabbing, and decapitation were revealed after Danny Rolling, a career criminal, pleaded guilty to murdering five college students. Rolling suffers, we are told, from "intermittent explosive disorder, a rare condition characterized by aggressive, violent outbursts and sometimes by remorse."

The Criminal as "Victim"

A glance at our criminal justice system shows there are minimal or often no consequences for criminal behavior. Criminals are routinely characterized as victims. Through plea bargaining, psychiatric defenses, prison furloughs, and early parole, they are put back on our streets. Seventy percent of all violent crimes are committed by only six percent of all criminals.

Demands to reform our criminal justice system are valid. But it's a long road back to sane procedures and substantive justice. Instilling self restraint and responsible behavior will not be instantaneous or easy. It is, however, our best hope.

Moreover, is it beneficial, is it moral, to surrender the right to effectively protect our children—ourselves? By capturing the moral high ground with their assertion: "If gun control saves just one life, then it's

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

worth it," proponents of gun control are often successful in evading the alternative. "Existing gun control laws have already cost innocent lives."

In October 1991, 23 people were murdered in Luby's cafeteria in Killeen, Texas. The assailant reloaded his two pistols five times before the police arrived. Texas law, which prohibits carrying firearms, insured that all the victims would be unarmed and defenseless. Most of us remember the Luby's massacre. It was national news, and is often cited as proof of the need for still more comprehensive gun control.

Shoney's in Anniston, Alabama, just two months later, was the scene of another violent encounter involving two criminals with stolen pistols who forced employees and 20 customers into the walk-in refrigerator of the restaurant. You probably don't remember the Shoney's episode. Most people have never heard about it. It never made the national news. (National coverage is rare when guns are used to save lives.) Unlike Texas, the only people killed this time were the two criminals. Thomas Glen Tarry, a courageous citizen who was legally armed under Alabama law, fatally shot both outlaws, and saved the lives of 20 innocent people.[2]

The Right to Defend One's Self

In a landmark study on crime control, criminologist Gary Kleck explains that "Victim gun use in crime incidents is associated with lower rates of crime completion and of victim injury than any other defensive response, including doing nothing to resist." According to Professor Kleck, "victim gun use may be one of the most serious risks a criminal faces."[3] Fear of confronting an armed citizen is a deterrent that also benefits the roughly 50 percent of American families who don't own firearms. If Janet Reno and her allies prevail, only criminals will be armed.

Far from vigilantism, the right to keep and bear arms is affirmed in our Constitution, and is rooted in centuries of responsible citizenship.

But while the constitutionality of gun control laws is being argued, empirical evidence has shown they simply don't work. Already, there are over 20,000 gun control laws in the United States. A 1982 National Institute of Justice report concluded that such laws had no impact in reducing criminal violence.[4]

To remove guns from law-abiding citizens presumes that guns are to blame for violent crime, and shifts responsibility from the individual to an object. It has been said before. It's worth repeating: guns don't kill people; people do. □

1. For countervailing perspective on crime trend see, Rich Henderson, "Crime Story," *Reason*, June 1994, p. 14.
2. David B. Kopel, "The Violence of Gun Control," *Policy Review*, Winter 1993, p. 7.
3. Professor Gary Kleck, "Crime Control Through the Private Use of Armed Force," *Social Problems*, February 1988, pp. 16, 2.
4. Kopel, p. 16.

Spread the Word!

A year's subscription to *The Freeman* is a perfect birthday or thank–you gift for discerning relatives, friends, and neighbors.

First gift (or your own new subscription or renewal): $30.00
Each additional gift $15.00

Call us at (800) 452–3518—or fax your order: (914) 591–8910.

For orders outside the United States: $45.00 for the first subscription; $22.50 for each additional gift.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Last Experiment

by Joseph E. Petta

Many Americans are inspired nostalgically by a hope that classical liberalism has not been forever relegated to lonely chapters in antiquated political texts. Alaska, in particular, cultivates an optimistic vision of a political square-one, a "last frontier" that nurtures individualism as it rejects centralized control. If the liberal vision of our Founding Fathers can be realized anywhere in the United States without armed revolution, it is in Alaska. It provides us still with a peaceful opportunity to experience enlightened government because of its unique history and physical location.

Because the land is sparsely populated, the average Alaskan is free from technocratic control, an overbearing police presence, and other Orwellian social features. Yet on a comprehensive level, Alaskan freedom is a false illusion, an economic frontier that has been conquered well before its maturation by a greedy, unchecked federal bureaucracy and factionalized special interests.

Alaska's frontier is presently under siege from outside and from within, the result of a rush to claim the respective nuggets of gold that Alaska has to offer environmentalists, Native Alaskans, newly transplanted mainlanders, anarchists, libertarians, communitarian-socialistic demagogues, the Alaskan government, and most especially the U.S. government. The intensity of these factions is fueled by an awareness that an important political cusp is approaching, forcing unlikely alliances between them. Too often, ends justify means, subverting philosophic consistency; factions simultaneously defy and beg the assistance of higher bureaucratic authorities. I learned firsthand that the average Alaskan has, like most other Americans, little knowledge of the real causal relationships between political and economic institutions.

Behind Alaska's somewhat desperate political climate lies a pervasive federal government and a compliant state government indulged by the scores of federal mandates controlling land use. The State of Alaska is hostage to a federal policy that explicitly advocates the redistribution of wealth. At the root of this oppression is an economic climate antithetical to private property, one damaging to the future growth of Alaska, and threatening to individual freedoms.

History

Like most of the United States, Alaska was purchased directly by the federal government. Once referred to as "Seward's Folly" in dubious honor of William Henry Seward, chief advocate of the acquisition and Secretary of State under Andrew Johnson, Alaska cost a mere $7.2 million when purchased from Russia in 1867. The sale was tepidly received by the American people.

Until Alaska was granted statehood in

Mr. Petta, who studied at the University of Alaska Fairbanks, is a master's candidate in English at William Paterson College, Wayne, New Jersey. He is becoming an increasingly active voice for libertarian philosophy.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

1959, the federal presence there had been primarily military. During World War II, the two most distant islands of the Aleutian chain, Attu and Kiska, were occupied by the Japanese until liberated by the U.S. Seventh Infantry Division. Understandably, this campaign went largely unnoticed by Americans because of greater concerns in Europe and the Pacific. Yet Alaska's strategic importance during the Cold War created a renewed awareness in the public conscience that this territory was, in fact, *American*. With statehood came the official conclusion to Manifest Destiny, and even at this point the greater part of Alaska's history was forthcoming.

Unlike the ever-expanding and eminently more accessible mainland West, Alaska was not offered for two cents an acre to willing settlers and farmers because its lack of national political importance. Economic concerns such as gold mining, timber, and fishing did emerge during these years, bringing short-lived waves of mass influx but only trickles of permanent homesteaders. Alaska's present social fragmentation is the result of a history of these economic booms that have historically left the frontier abandoned. Consequently, the few American communities that did develop dealt with life from a highly localized, even immediate, perspective. An intrusive jurisdiction was hardly necessary and even today seems an impossible logistic in the face of local self-governing needs.

Since there has never been a steady public interest in Alaska until very recently, the federal government became its main advocate during the relatively stagnant 92 years between purchase and statehood. In this respect only is the federal government blameless for present conditions. It was, and perhaps still is, viewed as a land to be *used*, not developed for long-term or large-scale human habitation.

The discovery of oil on the North Slope in 1968 replaced the days of simple freedom in a pristine wilderness with a melting pot of big business, workers, environmentalists, government agencies, and the ensuing bureaucracies. The oil pipeline which runs from Prudhoe Bay on the Arctic Ocean down to Valdez on the Prince William Sound, is responsible for the creation of many new towns and for the growth of existing communities. As Alaska became increasingly more accessible and as the quality of life improved as a result of this infusion, mainlanders looking for a new way of life, academicians, and special interest advocates followed, helping to further expand an emerging social infrastructure.

The general feeling that one perceives of not being in the United States, but in a breakaway country, is understandable from a psychological perspective. Alaskans are the victims of a rather brazen lack of respect from their fellow Americans and their federal government. Alaska is still viewed by many as a windfall asset for the exclusive use of the American common good, federal monopoly or not. Along with the recent growth in Alaska have come interest groups from the lower forty-eight, staging old ideological battles in a new land. The inevitable assimilation of "concerned" mainlanders into Alaskan society has caused the conservative Alaskan conscience to backlash, and has created more factions than ever imaginable. Demagogues from the "south," eager to spread egalitarian precepts and advance socialistic legislation through the exploitation of ethnic and environmental issues, have forcibly moved the modern American social battleground north.

Facts

The overwhelming dependence the modern Alaskan has upon government is primarily the fault of a self-serving bureaucracy, complemented by a largely radical populace engaged in fly-by-night politics. Thus, it is easy to see why government retains so much power in Alaska today. But how did government ever become so entrenched in the first place?

In the most heavily subsidized state in the union, Alaskans welcome government-sponsored cake while rejecting it in theory. Even members of the Alaskan Independence Party receive their redistributed ben-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

efits. According to *The Wall Street Journal*: "Alaska's state and local general expenditures as a percentage of state personal income are two and a half times the U.S. average. The state and local government payroll, also measured against personal income, is about twice the U.S. average."[1] This, by residents who enjoy the highest per capita income in the United States to begin with and are the least-taxed members of the union, paying neither sales nor state income tax![2] Every one of Alaska's approximately 540,000 inhabitants is indulged by government spending four times more than the residents of any other state.[3] This is in large part due to a phenomenon referred to, perhaps ironically, as the "permanent fund," an annual dividend of nearly $1,000 awarded to every Alaskan citizen.

This fund is completely financed by an oil industry forced to be "generous" for the simple fact that 99 percent of all land in Alaska is government-owned, 75 percent by the federal government.[4] Moreover, a whopping 85 percent of the state's budget is provided by oil revenues, yet 65 percent of all jobs in Alaska are government-sponsored![5] This contrast in economic efficiency need not be detailed. The only monopoly on power is exercised by the state and federal governments, forcing what little industry exists into a state of virtual slavery. How much more prosperous would the citizens of Alaska be if industry were allowed to operate unbridled, without the condescension of government?

At Prudhoe, a state land facility, twenty-five cents of every dollar in oil revenue is deposited directly into Alaska's permanent fund, now in excess of $11 billion.[6] However, Prudhoe Bay's output has begun to decline by 7–10 percent a year since 1990.[7] As oil production slows, Alaskans are threatened with an income tax and an alternative economic plan. The battle to open the Arctic National Wildlife Reserve (ANWR) to drilling is presently being fought, but by whom? The majority of Alaskans support drilling at the ANWR site even though the land is federally owned, which will likely result in less *free* revenue for the average citizen. Environmental groups vociferously denounce drilling at ANWR, even though only .1 percent of the refuge's 19 million acres will be affected.[8]

Alaskans are violently proud of their land, what little of it is actually theirs. Understandably, there is an instinct for a citizenry so bonded to such a special region to react against the "destructive" forces of industry. Thus, the average Alaskan is also decidedly in favor of environmentalist measures. They turn to the state and federal governments to, in essence, protect these interests. Meanwhile, the oil industry is providing the aforementioned gratuities, made *obligatory* by a government monopoly on land! The Alaskan future is thus compromised, the consumer is burdened with the inevitably inflated cost of fuel, and special interests gain false credibility and power.

Government Tyranny

Witness a government that is seemingly both problem and solution, which renders it, in fact, the problem only. In Federalist No. 1, Alexander Hamilton argues for "the utility of Union." He feared, as did the rest of the Founding Fathers, the tyranny that eventually follows democratic instability. Over the last 200 years, Americans have gradually become tyrannized by the *over-utilization* of union. There are few rugged individualists left in Alaska willing to forgo the benefits of mere residency and, so, government control over everyday life becomes insuperable. Any chance for a citizenry to benefit from a free-market where economic growth and lower consumer costs are complementary, not at odds, is conveniently disregarded. The real beneficiary of this arrangement is, of course, the state and federal governments, in terms of money and *power*.

Ayn Rand identifies the type of conspiracy that is highly visible in Alaska today:

> Every coercive monopoly that exists or has ever existed—in the United States, in Europe, or anywhere else in the world—*was created and made possible only by an*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

act of government: by special franchises, licenses, subsidies, by *legislative* actions which granted special privileges (not attainable on a free market) to a man or group of men, and forbade all others to enter that particular field.[9]

The so-called economic crisis that looms on Alaska's snow-capped horizon has been artificially created, artificially (and temporarily) quelled by government control over big business, and is being artificially intensified by contradictory government programs designed to "promote" growth. The resulting tension and confusion among Alaskans is unfortunate as it, too, is an artificial creation.

There is no real threat apparent, certainly not from industry, so government agencies have created an explosive political situation by inventing needs for their usefulness. In 1981, the Alaska National Interest and Lands Conservation bill was enacted, resuming federal control over fish, game, and land.[10] As can be imagined, the efficiency of such management has been less than exemplary. For example, large expenditures have been wasted on subsidizing agriculture because bison responsible for trampling crops are protected by federal statutes. Fishermen have been lent money to buy boats, yet are thwarted from prospering because of strict bureaucratic control over fishing permits.[11] There are dozens more such cases.

Both acts epitomize the contradictory legislative hybrids that can only be created by government; in this case, the simultaneous pandering to special interests and the forcing of gratuitous political measures to "assist" the weakening economic infrastructure. It is a manipulation on par with any textbook fascism. A motivation to fragment, and thus dominate, is veiled behind the irony of government "service." Grossly paternal programs such as the Alaska Native Claims Settlement Act (1971), which mandated that Native Alaskans form tribal corporations subsidized by both the federal and state governments, ultimately failed because they were embraced only in lieu of less palatable offers from *government*.[12]

Solution

The one option never offered Alaskans is the answer to every chronic problem that the state suffers—the privatization of all land and the disbandment of state and federal regulatory bodies. Consequently, many Alaskans subvert inherently classical liberal values they wish for in their everyday lives by soliciting programs, agencies and legislative acts that are antithetical to their true aim of personal freedom.

There is no logical reason for private industry not to thrive in Alaska. Enjoying untapped resources that would be the envy of most nations, there is certainly no argument against *potential* prosperity. Alaska could be testament to the powerful quality of the individual human psyche when freed from the artificial burdens of government extended beyond its proper boundaries. Alaskans must rise to their own level of beliefs by rejecting all state and federal impositions, regardless of windfall economic benefits that are invariably less "profitable" than free market growth and individual freedom. □

1. "Out in the Cold," *Wall Street Journal*, December 22, 1993, A10.
2. "Now, the diet," *The Economist*, January 29, 1994; 330: 30.
3. *Ibid.*
4. *Ibid.*
5. *Ibid.*
6. "Hickel in a pickle," *The Economist*, January 4, 1992, 322: 22.
7. "The last frontier," *The Economist*, October 19, 1992, 321, 31.
8. *Ibid.*
9. Ayn Rand, *Capitalism: The Unknown Ideal* (New York: Penguin Books USA Inc., 1967), p. 73.
10. "Alaska," *Encyclopedia Americana*, 1993 ed.
11. *The Economist*, October 19, 1991, 321, 31.
12. Gary C. Anders, "Social and Economic Consequences of Federal Indian Policy: A Case Study of the Alaska Natives," *Economic Development and Cultural Change* 37 (1989), 285.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Real Reason Welfare Should End

by Michael Levin

Welfare should end, but not for the usual reasons. The Right has long held, and the Left is coming reluctantly to agree, that welfare creates a culture of dependency, sapping the initiative of its recipients. In the slums right now a generation of illegitimate children raised fatherless on Aid to Families with Dependent Children is being encouraged by welfare to produce the next generation.

Welfare no doubt has this effect, but what is wrong with welfare is not that it harms its recipients—lack of ambition is no burden if ambition is not needed for survival—but its moral outrageousness.

Let us try, for once, to see welfare not from the perspective of its recipients, but from the perspective of those who finance it. By what right can someone who works for a living, who has his own family to worry about, be required to support somebody else, or, what is worse, somebody else's illegitimate child? And forced the taxpayer is. Should he deduct from his tax payment the proportion the government will use for welfare, he is given a jail sentence, not a lecture on charity.

Professor Levin teaches in the Department of Philosophy at City College and The Graduate Center of The City University, New York, New York.

I am willing to grant that everyone is obliged to help the unfortunate, and that indifference to this obligation is a character defect. But compassion and charity are not the issue. The issue is forcible fulfillment of the duty of charity, or someone's idea of what this duty entails. Let those who feel obligated to support the abandoned illegitimate children of strangers do so. But leave others to wrestle with their consciences as they see fit.

This is a democracy, and the majority, which evidently does feel this obligation, has acted on it by passing the laws that created welfare entitlements. But that does not make the laws right. Forcing someone to support the illegitimate children of strangers is wrong even when the forcing is done by a majority.

As soon as anyone voices a wish to eliminate welfare, a sort of hostage situation is created, wherein welfare advocates raise the prospect of illegitimate children born to poor women. It is asked what will happen to these misbegotten children if "we" do not care for them—with the implication that it will be "our" fault if they starve.

First of all, no one seriously doubts that there would be fewer illegitimate babies than there are now if it were made clear well in advance that on a certain date welfare—AFDC, food stamps, subsidized housing, the lot—was going to end.

But let us imagine an unmarried woman so uninformed and improvident that, without giving thought to how she might be supported were she to become pregnant, consents to intercourse, and does bear a child. If the conservative's *deus ex machina*, "charity," does not arrive on schedule, the child starves. But responsibility for assuring that the child does not starve presumably resides with whoever is responsible for the child itself. The mother is responsible, and so is the father; by all means let us make the father support his offspring. But *I* am not responsible. *I* didn't impregnate the woman, or force her to have sex. Why then should I be forced to take care of it?

"How can you be so concerned with 'responsibility' and laying blame when a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

child is starving?" The answer is that I have to be concerned, or else I'm going to continue to help support that child as well as my own.

When "welfare reform" is undertaken for the wrong reasons, the reforms inevitably go in the wrong direction. The most appalling revelation about the plan submitted by Bill Clinton to "end welfare as we know it" is that its cost *exceeds* that of the welfare we know! The Clintonites make no bones of their enthusiasm for job training, childcare, and other new entitlements to encourage "independence." In practice, this means that instead of merely having to support the illegitimate child of a stranger, the taxpayer will have to support daycare and the stranger's vocational training as well.

We Are Individuals

Welfare rests on a fallacy and a myth. The fallacy is what logicians call Composition, reasoning from properties of the parts of a whole to properties of the whole. I am responsible for my children, you for yours; in this sense we are all responsible for our children. But then this "we" is surreptitiously interpreted to mean all of us collectively, so that "our" children become all children taken together. Suddenly "America" must take care of "its" children, and then, only a little less suddenly, everyone who can pay is paying for everybody's children.

Reinforcing this fallacy is the myth that We Are All In This Together, that we all share each other's fate. We don't. We are separate persons, families, clans, and groups, pursuing our various ends. We can and should cooperate, and—sometimes, not always—offer help in adversity. But we are all individually responsible for our fates, a responsibility that cannot be undone by forcing some people to pay for the heedlessness of others. □

The Population Bomb: Exploding the Myth

by Felix Livingston

Doomsday projections made two centuries ago by Thomas Malthus were revived by grim-faced delegates at the U.N. Population Conference in Cairo last year. The consensus of those present was that a population bomb is about to explode unless there is governmental intervention on a global scale. If nothing is done, we are warned, world population will double by the year 2055.

Dr. Livingston is Director of Freeman Services for The Foundation for Economic Education.

The new doomsayers predict that population will grow geometrically without bound and food production will be slowed because of fixed technology and dwindling resources. But statistics reveal that economic status dramatically affects the decision to have children. As a nation's per capita income increases, its birth rate declines. In addition, the world food supply is growing at a faster rate than population. This trend will likely continue because of technology changes in agriculture and con-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tinuing improvements in the ability to supply energy.

Malthusians say that governments must control reproductive habits of the poor because changes in childbearing practices have resulted in rapid population growth in developing nations. Not true: the average family size in Third World countries is virtually unchanged. World population is increasing because of lower death rates due to better nutrition and disease control. Another popular but misguided argument is that high population density adversely affects the ability of a nation to develop. But the data shows that densely populated nations, such as Taiwan and Japan, can be very prosperous. Conversely, some sparsely populated countries are among the world's poorest.

The evidence is clear. The surest way for a nation to defuse its population bomb is to create a fertile environment for economic growth. Why, then, does the official Cairo plan ignore development issues while advocating government spending of $17 billion annually on programs such as healthcare, family planning, and gender equality? First, many bureaucrats who attended the meeting do not believe that free choices made by millions of free people can possibly have beneficial social results. Only the prescriptions of an informed few—paid for and sometimes brutally applied by a central authority—can cope with the "population juggernaut." Second, many intellectuals who were in Cairo make a comfortable living from government subsidies that fund their policy proposals. Third, free economic development poses a threat to the raw political power exercised by the world's petty tyrants. An effective way to spread the suffocating blanket of control over a nation's citizens is to declare an emergency, which can be relieved only by enacting legislation to regiment and control people. The so-called crisis ends, but the new laws and institutions remain. Government expands; freedom contracts. The only antidote to arbitrary political power is the freedom which is built into the private property order.

"We cannot pry into the hearts of men," said Dr. Johnson, "but their actions are open to observation." While moral posturing and lofty rhetoric characterized the Cairo meeting, nothing advocated in its 113-page plan will banish the famine and material suffering that characterize the world's developing nations. The real population problem affecting many Third World countries is their refusal to adopt the habits and institutions that foster private enterprise and entrepreneurship. Nations that do not enforce private property rights and that view the accomplishments of producers as antisocial suffocate the spirit of enterprise and eliminate the very conditions necessary for political liberty and economic prosperity. When people are free to pursue their economic interests in free markets, the so-called "population problem" will resolve itself. □

Attention Teachers and Professors!

Recent Issues of

THE FREEMAN

for Classroom Use

Here's a chance to introduce students to *The Freeman* at little cost to you or your school. We are offering cartons of back issues of *The Freeman* for the modest charge of $10.00 per carton (within the United States) to help defray our shipping and handling charges. Each carton contains between 175 and 200 copies. Payment must accompany order.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Pro Sports on the Dole

by Raymond J. Keating

Baseball is no longer just a game; it's big business. Such is the conventional wisdom today. And with salaries skyrocketing to the point where now the *average* major league baseball player earns $1.2 million a year, who could disagree?

However, ever since the first professional team, the Cincinnati Red Stockings, was fielded in 1869, baseball has been a business. Indeed, this is not something to be ashamed of; it should be celebrated. The fact that baseball is a business allows the professionals who play the sport to hone their skills to a point and for a period of time largely unknown to those participating in amateur sports.

The business status of baseball has enabled it to become America's "national pastime." Just as the great feats of Johnny Bench, Tom Seaver, Mike Schmidt, and Reggie Jackson captured the imagination of my generation, the achievements of Ken Griffey, Jr., Matt Williams, Barry Larkin, and Cal Ripken, Jr., inspire today's youth—and the rest of us as well. This excellence largely emerges out of baseball's status as a business or profession.

Unfortunately, the dark side of big business is a major part of the game as well. Corporate welfare deeply infiltrates baseball, along with most other professional sports. That is, a distasteful and costly alliance between government and business. Fans no longer support their favorite teams and players merely through ticket prices, concessions, team apparel and souvenirs, and cable TV subscriptions, but through their *taxes* as well. Taxpayers across America—whether they are fans or not—are subsidizing the portion of the entertainment industry known as professional sports. While such subsidies are completely unjustified, they become even more egregious considering, for example, that the average employee in major league baseball earns more than a million dollars a year.

Examples abound. New York—long accepted as the capital of traditional welfare spending—has managed to turn practically all levels of sport into welfare clients. Most prominently, both the state and New York City have been scrambling since 1993 to come up with plans for either a new Yankee Stadium in a new locale, or upgrades to the current facility in order to stop team owner George Steinbrenner from moving the Bronx Bombers out of New York. The cost to New York taxpayers vary from a whopping $1 billion proposal for an entirely new stadium to almost $400 million for a seemingly modest plan for a stadium upgrade that includes a new bridge leading into an 11,000-car parking garage, as well as a shopping mall.

However, New York state's officials are not content to extend corporate welfare to only the New York Yankees. In the state's 1994–95 budget, well over $100 million was slated for other stadiums and sports facili-

Mr. Keating is the director of New York Citizens for a Sound Economy Foundation, and partner with Northeast Economics and Consulting.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ties, including $8 million for Rich Stadium, home of the Buffalo Bills; $25 million for the Buffalo Sabres' new hockey arena; $4.5 million for the Soccer Hall of Fame in Oneonta, and millions more for minor league baseball stadiums across the state. Perhaps most distressing, though, is the $125,000 in state taxpayer dollars for the Baseball Hall of Fame Stadium in Cooperstown—a great blow to the innocence and independence of baseball.

Of course, New York is certainly not alone in this alliance of government and professional sports. Jacksonville, Florida, for example, has agreed to finance a $121 million Gator Bowl renovation for its expansion National Football League (NFL) team, the Jaguars.

Meanwhile, some cities and states have taken the saying "Build it and he will come" from the movie *Field of Dreams* literally. St. Petersburg, Florida, built a domed stadium *in anticipation* of landing a major league baseball team. A possible move by the San Francisco Giants to St. Pete was nixed, so no baseball team yet. The taxpayers' bill equaled $138 million. Similarly, the State of Missouri started building a new domed stadium in St. Louis to lure an NFL franchise. Despite lobbying by U.S. Representative Richard Gephardt, the NFL shunned St. Louis during its last expansion meeting. The cost of the yet-to-be-completed stadium to Missouri's taxpayers—an estimated $200 million. The city of Nashville, Tennessee, is building a taxpayer-funded arena for basketball and/or hockey without a tenant as well, at a cost of $140 million.

These governments have decided to take on the role of venture capitalist. Government bureaucrats lack the experience, knowledge, and proper incentives to make such investment decisions. In addition, the risky nature of these endeavors dictates that private resources should be used in lieu of taxpayer dollars.

Billions for Baseball

Baseball stadiums opening to great acclaim recently include the Baltimore Orioles' Camden Yards, the Chicago White Sox's new Comiskey Park, the Texas Rangers' Ballpark at Arlington, and the Cleveland Indians' Jacobs Field. The acclaim is certainly justified as these new stadiums are unique parks made for baseball, unlike the sterile, round, utilitarian, astroturf stadiums built in the 1960s and 1970s. Unfortunately, taxpayers were tapped for these parks as well—$200 million for Camden Yards, $135 million for Comiskey Park, and $236 million for Jacobs Field and a new arena for basketball's Cleveland Cavaliers. As for the Ballpark at Arlington, the total cost of $190 million was split—$135 million in taxpayer funding through a one-half cent city sales tax and $55 million in private financing by the Rangers including the sale of 15-year options on 10,400 of the new stadium's seats and first-year sales of luxury suites. In 1995, the Colorado Rockies will move into a new stadium in Denver which cost taxpayers $141 million.

Even the self-proclaimed free-market governor of Massachusetts, Bill Weld, has succumbed to the temptations of taxpayer-subsidized professional sports. He has thrown his support behind a $700 million stadium and convention center in downtown Boston for the NFL's New England Patriots.

In Connecticut, multiple layers of government complicate the arena business. The city of Hartford owns the Hartford Civic Center, but is leasing it to the state of Connecticut at a cost of $48 million for a 20-year period in order to help pay the city's debt service. In turn, the state is investing in upgrades to the arena—home of hockey's Hartford Whalers—at an estimated cost of more than $5 million. According to a Connecticut economic development spokesman, the state expects to cover their total costs through arena-based revenues, including a $1 ticket tax, and even "generate a small profit." (Of course, the question arises: If the Hartford Civic Center can generate a profit, why not privatize it?)

In a June 6, 1994, article, *Forbes* magazine reported, "Over $1 billion has been spent for facilities opened since 1992,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ground has been broken on another $1.5 billion worth, and there are plans for still another $5 billion in construction by the end of the decade." With taxpayers footing most of the bill. The assumption underlying all this activity—government subsidizing, taxing, borrowing, and playing venture capitalist—is that taxpayer subsidization of professional sports enhances economic growth. This is, at best, a questionable assumption.

Robert A. Baade, an economics professor at Lake Forest College in Illinois, wrote a study recently for the Heartland Institute in which he compared economic growth rates in metropolitan areas before and after the introduction of professional teams, new stadiums, and new arenas. His results overwhelmingly indicate "that professional sports is not statistically significant in determining economic growth rates." Baade declares that his study "finds no support for the notion that there is an economic rationale for public subsidies to sports teams and stadium and arena construction." He further explains: "Attending a sporting event is but one possible use of an individual's leisure time and money. It is possible that no connection between professional sports and per capita income growth emerged because sports spending simply substitutes for other forms of leisure spending." Baade also notes that the types of jobs associated with stadium activity tend to be seasonal and low wage.

Charles C. Euchner, a political science professor at the College of the Holy Cross, also raises serious doubts regarding the economic merits of new sports stadiums in his book *Playing the Field: Why Sports Teams Move and Cities Fight to Keep Them*. He goes a step further, however, observing:

> Whatever the merits of sports-based development, those cities that most need an economic boost are least able to make major investments such as stadium construction. Studies have shown that economically struggling cities tend to pay more for expensive and ineffective projects for development because of a sense of desperation to show tangible improvement. Stadiums and sports teams are luxuries that fiscally strapped cities can ill afford—yet have great difficulty bypassing because of the potency of symbolic notions like "renaissance" and "major league status."

Keep the Yankees in New York?

This "sense of desperation" is most evident in the scramble by state and city officials to keep the Yankees in New York. Many New Yorkers still feel the pain of the Dodgers' and Giants' flight to California more than three decades ago. Over these same three decades, New York has witnessed an even more massive exodus of individuals, entrepreneurs, and businesses. Apparently unwilling to make the decisions that will stem and even turn this tide, government officials have grabbed onto the myth that if New York can just keep the Yankees the city's economy will somehow stay afloat.

In fact, status *seems* to be the only benefit to be derived from government subsidization of teams and stadiums. Hundreds of millions of taxpayer dollars is a hefty price to pay for a nebulous feeling of status. Yankee Stadium, for example, seems to have done little even for the status of the South Bronx.

Indeed, Professor Baade observes, "The data suggest that stadium subsidies and other sports subsidies benefit not the community as a whole, but rather team owners and professional athletes." One of the latest government proposals, to keep the Yankees in the Bronx would fit this observation. The plan for a bridge from Manhattan leading straight into a new parking garage, where fans then would proceed through a mall into the stadium, seems specifically designed to separate the stadium and fans from the local, often dangerous, community where Yankee Stadium sits.

Very little empirical evidence exists supporting government subsidization of profes-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sional sports. Complementing the economic arguments against such activity is America's tradition of limited government. When one considers the proper role of government in society, the case against taxpayer-supported sports facilities becomes even stronger.

A sound governing philosophy dictates that government should undertake only those critical activities that the private sector proves unable to supply. On the federal level, national defense comes to mind. On the state and local levels, one thinks of public safety, such as police and the justice system. The political debate intensifies once the focus moves beyond such duties. Witness the growing debate over welfare in our nation. The notion, therefore, that subsidizing professional sports—a part of the entertainment industry—is a proper government undertaking becomes highly debatable, to say the least. It is difficult to imagine any of our Founding Fathers, if alive today, supporting taxpayer-funded baseball stadiums as a legitimate function of government.

From 1950 through 1980, though, the trend toward government-owned stadiums and arenas seemed irreversible. According to economics professors James Quirk and Rodney Fort, in their book *Pay Dirt*, the percentage of publicly owned stadiums in baseball's American League rose from 12 percent in 1950 to 86 percent in 1980; the National League rose from 0 percent to 83 percent; the NFL increased from 36 percent to 96 percent; the National Basketball Association (NBA) from 46 percent to 76 percent; and the National Hockey League (NHL) from 0 percent to 52 percent.

A small retreat was witnessed in the 1980s, though, as publicly owned facilities actually dropped by 1991 in the National League to 75 percent, in the NFL to 93 percent, and to 65 percent in the NBA. During this period, the Miami Dolphins moved into the $100 million team-owned Joe Robbie Stadium, and baseball's St. Louis Cardinals bought Busch Stadium. Also in 1992, Toronto's Skydome, home to the Blue Jays, was privatized.

Taxpayer Revolt?

Government ownership of stadiums and arenas is not inevitable. The question becomes: How to stop the channeling of taxpayer dollars to professional sports? A question that has been asked about countless government ventures of highly dubious nature throughout the ages.

The first option would be a noble declaration by the powers that be in professional sports that taxpayer dollars will no longer be sought or accepted by their respective sports. It is difficult to imagine George Steinbrenner, for example, who has so cleverly manipulated New York's elected officials thus far, suddenly declaring that he no longer seeks taxpayer dollars and is willing to buy Yankee Stadium from New York City and invest in improvements. After all, the beneficiaries of government programs and spending never suggest eliminating those benefits.

The second option would require self-control on the part of America's elected officials—swearing off taxpayer subsidies of sports. In the past, elected officials have had few incentives to cease subsidizing sports. Little organized opposition existed to such ventures and many fans were at least perceived to be appreciative of such government action.

The final decision will lie with the American voters. In fact, when put to a vote of the people, some taxpayer-funded sports stadiums have not fared well. The people of San Francisco, for example, have turned down several referendums for a new home for their Giants. Even some politicians have said no. Tax-cut-minded New Jersey Governor Christine Todd Whitman recently nixed a deal to build an arena in Camden to lure the Philadelphia 76ers and is examining privatization options for the state's Meadowlands Sports Complex, home to the NFL's Giants and Jets, the NBA's Nets, and the NHL's Devils.

Indeed, alternatives to taxpayer subsidies are available. The NFL expansion Carolina Panthers, while accepting $40–45 million worth of land from the city of Charlotte, will

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

play in a new stadium privately financed, in part, through the sale of permanent seat licenses. These license sales guarantee the purchasers the right to buy season tickets in perpetuity. They also can be bought and sold in the marketplace. The total construction costs of the new Carolina Stadium will be $160 million, with $100 million from the seat licenses and the rest from private investors. In addition, Washington Redskins owner Jack Kent Cooke is proposing to privately finance a new stadium in Maryland, with construction costs estimated at $160 million.

The American people need to understand that the economic impact of government subsidization of sports is negligible at best. More likely, by adding to ever-increasing levels of government spending and taxes and choosing political rather than market means of allocating resources, one can legitimately argue that such subsidization is anti-growth in nature.

Fans also must realize that professional sports in America will still thrive without taxpayer subsidies, as they did in the past. Naturally, team owners will have to reallocate some resources toward capital investments. However, no one should weep for America's multi-billion dollar sports industry, nor its millionaire players. They would simply be confronted with the same decisions faced by all other businesses.

In fact, government officials would better focus their attention on creating a healthy economic environment for their respective cities and states by lowering taxes, reducing regulatory burdens, and paring down the size of government. Such an enterprising environment attracts investment, businesses, and individuals, who in turn create a viable market for baseball, football, hockey, and basketball.

Heck, an environment conducive to economic growth and opportunity might even create a market for soccer in the United States. Well, perhaps I go *too* far. □

IN MEMORIAM

Murray N. Rothbard
(1926 – 1995)

On January 7, 1995, Murray Rothbard departed this mortal life so that he may join the immortals. Sudden death delivered him from his daily chores and put his task in other hands.

Those of us who were privileged to know Murray Rothbard have lost a dear colleague who inspired us with his incisive observations, brilliant reflections, and always keen and sparkling remarks. His departure from the stage of life is a loss to the whole libertarian world which he helped to forge and mend. He was not only one of the greatest economists of our generation but also a great social and political thinker. His was a powerful mind comparable to those of his teacher, Ludwig von Mises, and his teacher, Eugen von Böhm–Bawerk.

Murray was an indefatigable worker, the author of an unending stream of books and booklets, essays and articles, many of which have been translated into foreign languages. Several are masterpieces which are destined to be studied by future generations of students and scholars. They have earned him a place of honor in the annals of libertarian thought.

Hans F. Sennholz

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Religion's Modern Witch Hunt

by Charles Dickson

The Old Testament Book of Exodus contains a verse which reads, "thou shalt not suffer a witch to live." For hundreds of years since those words were first penned, religious groups have used them to justify persecution of those accused of practicing witchcraft. Some historians estimate that during the period extending from the fifteenth through the eighteenth centuries churches put 300,000 women to death. This figure includes such episodes as America's infamous Salem witch trials of 1692 when the Massachusetts colonists executed 20 persons and imprisoned 150 others.

While witch hunting in the traditional sense is no longer part of the American scene, a new form of it has emerged in the bureaucratic chambers of some major American religious denominations. This time the object of religious revenge is not ladies wearing black dresses and conducting strange rituals, but rather the management of many major American corporations.

A quiet, behind-the-scenes war began in the early 1970s when two national groups were formed to monitor activity of American businesses and then recommend punishments of certain ones by selling off (divesting) their stock from the portfolios of church retirement funds when the companies did anything with which they disagreed. These groups, serving as watchdog units on corporate activity are called the Interfaith Center on Corporate Responsibility (ICCR) headquartered in New York, and the Investor Responsibility Resource Center (IRRC) which operates out of Washington.

Dr. Dickson is a chemistry teacher, ordained clergyman, and writer whose articles have appeared in The Wall Street Journal, Barron's, The Christian Science Monitor, *and numerous other scientific, religious, and business publications.*

The Mechanics of Witch Hunting

Basically the scenario works this way. The ICCR and the IRRC offer annual subscriber services for a fee. In the case of the ICCR, each participating group must pay $2,000 which entitles it to receive a monthly list of what are called "screens." When a corporate name appears on the screens list there is also a note as to what "sin" it is committing which may range from producing alcohol to processing tobacco, polluting the environment, or, until recently, doing business in South Africa. Managers of church retirement fund portfolios who subscribe to these services may then elect to respond to the screen by selling off all the stock in a particular guilty corporation as a means of protest.

Thus the mission of the ICCR and IRRC, with their salaried full-time staffs, is to search out whatever witches' brews they may find in the kettles of American industry and then recommend punishment by stock divesting. But who are the ICCR and IRRC anyway?

The ICCR began in 1971 and occupies the same headquarters as the National Council

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of Churches with whom it works closely. Membership includes churches ranging from Quaker to Catholic and from Methodist to Mennonite. It seeks to manipulate corporate decision-making by using methods ranging from protest letters to threats of boycott, negative publicity and, of course, divestment of stock holdings in the retirement funds of its supporting church groups. In addition it makes recommendations of companies in which to buy stock.

The IRRC was founded in 1972 and numbers among its members some of the same church groups as ICCR plus some corporations who are sympathetic to its cause. This group reports assets valued at nearly three million dollars and annual revenues approaching five million. One of its stated purposes is to produce screens of corporations with recommendations to punish those companies with which it disagrees.

The combined result of these group efforts is that the stocks of 162 major American corporations have been, to one degree or another, removed from the retirement portfolios of clergy and other church workers without their consent and, in most cases, without their knowledge. On the list of "witches" are such financial stalwarts as Borden, John Deere, Hewlett-Packard, Westinghouse, General Electric, IBM, Ford Motor, Colgate-Palmolive, and Bristol-Myers, to mention but a handful, all of whom have felt the bite of church divesting.

But the real bite has been felt by faithful retired church workers who have discovered their monthly pensions are nowhere near as large as they had reason to hope they would be. It stands to reason why this is happening. If an individual takes his or her own investment portfolio and strips it of companies with a history of good yields, the returns are sure to take a nosedive.

Appeal to Reason

As I detailed in "Pensiongate: The Emerging Crisis of Church Investments" *The Freeman* (August 1994), there is a solid body of evidence as to why our church bureaucracies should cease orchestrated witch hunting operations against corporate America. There are equally strong arguments which cannot be expressed by mere statistics. These may be called the reasonable human factor.

Over the years many companies have done commendable jobs in building the economy of both America and other nations. Selling off their stock as a punishment tactic ignores these accomplishments. The other human factor church social investors fail to recognize is the fact that congregations of all faiths are filled each week with people from every level of employment who work for these companies and who contribute part of their earnings to the welfare of the church, while some of the leaders of the church are working to undermine the companies that employ them. Biting the hand that feeds you has always been a questionable course of action.

Meanwhile the conflict between institutional religion and corporate management continues to be waged by those who direct the back-room, closed-door operation of many church pension funds. For many who believe the task of churches is to minister to human spiritual needs rather than to manipulate corporations or destabilize governments this whole witch hunting operation seems, at the very least, unnecessary if not downright divisive. While corporate America is certainly not without its faults the churches must also possess the insight and courage to admit their own shortcomings.

In an age when we desperately need dialogue between conflicting ideologies on all fronts, we must also search for those who will have the wisdom to avoid advocating patterns of behavior which tend to drive people apart. We need healers not polarizers and churches, above all institutions, should know this. Admittedly, it has always seemed easier to erect walls which separate than to construct bridges which connect. Hopefully it will be the bridge builders who carry the day with efforts that set the stage for a new era of cooperation between churches and corporations. They are, after all, two great American institutions which, in the final analysis, need each other. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Full Employment—A Lesson from the Deserts of Saudi Arabia

by Keith Wade

The United States has an unemployment problem. While there are people out of work in every segment of the population, the low-skilled worker has been disproportionately outplaced. As the minimum wage rises and guaranteed employer-subsidized health care looms ominously on the horizon, more and more companies are deciding that giving the teenager his or her first break is just not worth it. The minimum wage has choked the life out of many small businesses, forced many people who genuinely want to work for a living onto the welfare rolls, and driven up the cost of goods and services. The true minimum wage is not $4.50; the true minimum wage is nothing at all!

Precisely because of our minimum wage laws there are far too many people who are disemployed and forced to accept exactly that. The pretty politics of compassion have convoluted and obscured a simple fact of life—each individual has a unique set of skills that have a certain value. The fact that some of these skill sets cannot command the minimum wage is also unavoidable. While the United States through its minimum wage law has undertaken to make these unfortunate individuals paupers, other nations have allowed these people to work with dignity, resulting in positive results for the worker, the employee, the consumer, and society at large.

As one of the 30,000 American professionals living and working in Saudi Arabia, some of the economics of the Arab world initially confounded me. A liter of water costs roughly five times as much as a liter of gasoline. A pair of tailor-made British wool dress slacks costs about $20. Because most of the markets are allowed to clear and prices are largely a matter of negotiating between storekeeper and shopper, pricing seems odd to the newcomer. The labor market is no different. With every Saudi national who wants to work guaranteed a job, there are still enough jobs to entice tens of thousands of foreigners to flock to Saudi Arabia and find jobs in a pay range from a few thousand dollars a year to hundreds of thousands.

The Saudi government has effectively separated wages from the other elements of employment. The policy regarding wages is "hands off"; wages are an issue between employee and employer. Along with this policy, however, are a number of exceptionally effective safeguards. Everyone working in Saudi Arabia has a contract that the employer is obligated to fulfill. Labor

Mr. Wade is a systems and efficiency consultant based in Denver, Colorado. He is currently on long-term assignment in Riyadh, Saudi Arabia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

courts are quick and efficient and consistently look to the agreement as the governing factor. So while the employee and employer are free to negotiate terms and conditions of employment, the "exploitation of workers" that we have been so long told would occur without government meddling just does not happen. The contract—as it once was in the United States—is law.

Employers, realizing the investment that they have in their workers (airfare, housing, paid leave) generally treat them like the valuable resource they are. Eliminating the minimum wage does not mean eliminating fairness or safety or unleashing any of the monsters that we have been told over and over will appear if we allow employers and employees to negotiate without outside interference.

Clearing the Labor Market

The labor market in Saudi Arabia has been allowed to find its cost and has cleared. Those who opposed NAFTA were terrified that the borders would be overrun with people (presumably Mexican nationals) seeking employment in the United States. These naysayers would do well to look at Saudi Arabia as an example of what happens when that occurs, for indeed a large part of the workforce here is foreign. Hundreds of thousands of workers have poured into Saudi Arabia (which is effectively impossible to enter without a guarantee by an employer of employment and return travel home). And these hundreds of thousands of workers have taken jobs ranging from senior managers to tea boy (women generally do not work outside of the professions of teaching and nursing) to ditch digger. In addition, all of the local inhabitants who wish to work have jobs ranging from senior manager to shop clerk to goatherder. Some nomads, like their fathers before them and their fathers before them, make their living ranching camels in the desert setting up camp in a different place each night.

Because there is no interference with wages, each of these individuals is able to earn a living—something that they might not otherwise be able to do were the price for their labor set artificially high by an outsider's arbitrary decision. Large companies pay people to tear up confidential documents by hand as opposed to investing in paper shredders; many middle-sized and most large merchants have at least one young man to bring tea to their customers; the corner grocery store and pharmacy have delivery boys to bring the shopper's packages home. Indeed—unlike the situation in the United States where the artificially high wages mandated by the minimum-wage law have driven millions out of the labor market and onto the welfare rolls—even someone with very meager skills, no education, and no ability to communicate in the local language can get a job.

Whatever happened to shepherds in the United States? They found themselves priced out of the market. Barbed wire is cheap—no American farmer could afford to pay someone minimum wage to lean on a stick and watch a flock of sheep. Between the minimum wage, Social Security, FICA, and on and on the cost is prohibitive. Consequently, people who would be perfectly content to watch sheep for a few dollars per day, read their philosophy books under the trees, and generally be happy with their lot are not allowed to do so. These people have been effectively made wards of the state by the highhandedness of the minimum wage laws. As one might expect, Saudi Arabia has shepherds (most of whom seem perfectly happy and who seem to favor Japanese pickups for some reason).

Everyone Has a Job

Without government interference the system is simple: everyone earns what he is worth and no one need worry about not being able to get a job. Let us look at the person who makes his living tearing documents into small shreds. In the United States we would purchase a paper shredder. We would do this for a simple reason—it is cheaper to buy a paper shredder than it is to pay someone to tear papers to shreds. The U.S. government will not let us pay some-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

one $100 per month to shred papers (though they will allow us to pay an executive $100,000 per hour to shred papers at his or her wastebasket due the unavailability of a paper-shredding technician). As a result, those members of society who can do nothing more valuable than tear up paper are unemployed and a burden on society.

A simple rule that the supporters of the minimum wage law seemed to forget is that certain tasks are worth only so much. Consequently, parking lots are swept in Saudi Arabia and not in the United States for a very important reason—the U.S. government would make a criminal out of the store owner who gave someone $2.00 to sweep his parking lot—notwithstanding the fact that the parking lot sweeper might be delighted to accept that price and sustain himself by honest work.

All of society benefits from this natural clearing of the labor market. Obviously the worker benefits by being able to provide subsistence for their family by working as opposed to begging. Society benefits by not having to funnel its limited resources to supporting those who cannot command the minimum wage. Merchants benefit by being able to offer a variety of benefits that would be cost prohibitive in the United States—coffee service to shoppers, a freshly swept parking lot, messengers, and a host of other services.

Lest the naysayers say "it won't work here," the fact that Saudi Arabia is a rich country is not really an issue. On a per capita basis Saudi Arabia is one of the richest countries in the world. Most of that money, however, has gone into the country's infrastructure and not into the sort of massive welfare program that we might expect. Indeed, little subsidizing of the basic needs of life goes on—able-bodied men are expected to work for a living. The government does encourage education and training, using liberal incentives to lure people into classrooms. But handouts are not common.

The United States should abolish minimum wage laws; they worsen the problem they were invoked to solve. It is not my intention to advocate that we adopt the culture, laws, or economy of Saudi Arabia. But it is my intention to suggest that there is an important lesson to be learned here: It is more dignified to allow people to work for less than a minimum wage than to force them to be paupers as a result of a high handed interpretation of what a minimum wage should be. It is better for society to have people happily working for less than minimum wage than to have these people forced into becoming ungrateful and involuntary wards of the state. It is better for the consumer to purchase goods that are made with realistically priced labor than with artificially high-cost labor. And, most importantly, it is possible to accomplish all of these things. A cursory examination of the Saudi Arabian work world indicates that it can indeed be done and the results are indeed positive. □

Reed. Bidinotto. Skousen. Sennholz.
Four good reasons to read *The Freeman* each month!

Don't miss this month's provocative commentaries by Larry Reed *(p.81)*, Bob Bidinotto *(p. 103)*, Mark Skousen *(p.130)*, and Hans Sennholz's *Notes from FEE*.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Ending the "Crayfish Syndrome"

by Ralph R. Reiland

What are the chances for upward mobility for a group of poor, black church people 96 percent on welfare—in rural Mississippi, the poorest state in the nation? What's their prospect for economic success if they don't get a dime from the Rockefellers or the Ford Foundation? What if they get no new anti-poverty programs, nothing from the Fortune 500, and nothing from the rich and famous African-American celebrities and athletes?

That's the story of the Greater Christ Temple in Meridian, Mississippi, and they ended up owning 1,000 head of cattle, two motels, a gas station, three restaurants, two chicken farms, 4,000 acres of farmland, the Green Acres housing development, two supermarkets, a hog operation with 300 brood sows, a construction company, a 55-acre Holyland commune, a school, and two meat-processing plants.

"We stopped the Crayfish Syndrome—it's when you put all the crayfish in a pail, and one starts out and all the others reach up and pull him down," says Bishop Luke Edwards, the pastor of the church. "We started by selling peanuts in the church, and buying wholesale food with the welfare money and selling it in a small grocery store in the church. Now there's no welfare or food stamps. We're saving the federal government $300,000."

Green Acres is the congregation's new 54-acre subdivision in Utaw, Alabama, with 132 homes being built for sale to the public. Heritage Construction, another business owned and operated by the congregation's members, supplies the heavy equipment—18 wheelers, backhoes, dump trucks. The church also acquired two motels this year in Alabama, the Westin Inns in Utaw and Livingston, and started chicken farms in Decator, Mississippi, and Gainesville, Alabama.

"We haven't allowed anything to diminish our thinking or our efforts," says Edwards. "Black people can be just as successful as anyone else, but our leaders have allowed us to be entrapped by government handouts. I lived in those neighborhoods. Welfare broke up the families, put the father out of the home, and let another man lay up there all he wanted. Handouts robbed our people, robbed them of self-esteem and self-respect."

Edwards doesn't preach the traditional bad news about a shrinking pie in racist America. "Racism is an excuse, a song. No, the playing field isn't even, but we make it even. We proved we can make it in Mississippi and it's the poorest state in the nation, and Alabama isn't far behind. Think what we can do in New York or Chicago. Look at

Mr. Reiland, Associate Professor of Economics at Robert Morris College, owns Amel's Restaurant in Pittsburgh and has been published in USA Today, Barron's, *and* Minorities & Women in Business.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the Cubans out in the ocean coming here. It *is* the land of opportunity."

The bottom line for Edwards is to focus more on opportunities than on obstacles, and it's producing more success than failure. If any one of us were raising a handicapped child—and being black in America is still a handicap—the worst thing we could do is subject that child to a daily harangue about the things he could never accomplish, about what's impossible for him, about how life is unequal and unfair, about the stream of misunderstandings, obstacles, and prejudice that lie ahead for him. Few of us have levels of confidence and ambition tough enough not to be undone by that.

Edwards delivers the opposite message, and it's reinforced with no-nonsense schooling and a philosophy that doesn't sneer at hard work. On top of math and spelling, students at the congregation's Accelerated Christian Education school, K through 12, learn how to run a hog farm and operate restaurants. These ACE students regularly outscore the state schools, and the courts have 26 students enrolled this term for a straight dose of rehab. The school rules aren't complex: no smoking, no drinking, no drugs, no weapons, no three or four hours of MTV a day, and no dating. And it's lights out at 8:30 p.m. No midnight basketball.

To those watching from the ground, a bird that's out of formation is usually seen as misguided, a joke. We don't think that the whole rest of the flock might be off track. To the Ivy Leaguers now occupying the White House, a black bishop who doesn't look toward D.C. for salvation is out of step, some outdated combination of Ronald Reagan, Clarence Thomas, and David Koresh. The only African-Americans who currently qualify for White House dinner invitations are those who believe in bigger government, higher taxes, and more urban pork.

What's working in Meridian, Mississippi, and Utaw, Alabama is less dependence on government and more respect for business. It is a prescription to reverse the deadly pathologies across America's inner cities. "There's no poor black neighborhoods," Edwards says. "Why would dope dealers be selling there? You've seen the money they're making. Those neighborhoods aren't poor, they're just misled and mismanaged. They can put money into opening stores, into creating jobs. They can do it." What's needed is more of the entrepreneurship of Little Havana and less Aid for Dependent Children, more of the small business capitalism of Koreatown, Little Italy, and Chinatown and fewer social engineers from HUD and EEOC. It's time to get the D.C. pipedreamers off center stage and unleash some black independence and entrepreneurship. □

In search of good students

Do you know college students who value liberty?

They will want to hear about a unique opportunity to spend a week exploring the classical liberal tradition—the philosophy of individual rights, the rule of law, the free market, free trade, and peace—with distinguished faculty and students from around the world. Participants receive **free** tuition, room, & board. Seminars held at various universities during the summer.

Call now for more information

1-800-697-8799

Application deadline: April 14, 1995

Institute for Humane Studies,
George Mason University, Fairfax, VA

"I gained a wealth of new information about the application of classical liberal theory in the real world."
—Tina Wallace, MIT, seminar participant

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Educational Octopus

by Mark J. Perry

Every politically controlled educational system will inculcate the doctrine of state supremacy sooner or later. . . . Once that doctrine has been accepted, it becomes an almost superhuman task to break the stranglehold of the political power over the life of the citizen. It has had his body, property and mind in its clutches from infancy. An octopus would sooner release its prey.

A tax-supported, compulsory educational system is the complete model of the totalitarian state.

—ISABEL PATERSON, *The God of the Machine* (1943)

What would you conclude about the quality of product or service X under the following circumstances?

1. The employees of Airline X and their families are offered free airline tickets as an employee benefit. The employees refuse to travel with their families on Airline X and instead pay full fare on Airline Y when flying.

2. The employees of Automaker X are offered a company car at a substantial discount and they instead buy a car at full price from Automaker Y.

3. Employees at Health Clinic X and their families are offered medical care at no additional cost as a benefit and yet most employees of Clinic X pay out-of-pocket for medical services at Clinic Y.

In each case, the employees' willingness to pay full price for a competitor's product or service and forgo their employer's product or service at a reduced price (or no cost) makes a strong statement about the low quality of X. What makes the inferior quality of X even more obvious is that the employees at Firm X, since they work in the industry, would have better information about product (service) X and product (service) Y than the average person.

What then should we conclude about the quality of public education in the United States given the following facts?

- Public school teachers send their own children to private schools at a rate more than twice the national average—22 percent of public educators' children are in private schools compared to the national average of 10 percent.
- In large cities across the United States, more that a quarter of public school teachers' children are attending private schools—50 percent in Milwaukee, 46 percent in Chicago, 44 percent in New Orleans, 36 percent in Memphis, and 30 percent in Baltimore and San Francisco.
- In New York City, as of 1988, no member of the Board of Education and no citywide elected official had children enrolled in a public school.

Public school teachers are giving public education a failing grade by their disproportionate patronization of private education when it comes to the education of their own children. The sharp decline in SAT scores over the last 30 years confirms that the

Dr. Perry is Director of Policy and Research, Institution for World Capitalism, Jacksonville University, Jacksonville, Florida.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

quality of public education is deteriorating. SAT scores (a measure of the academic ability of high school seniors) were fairly stable between World War II and the early 1960s, averaging about 978. Starting in the early 1960s, SAT scores steadily declined and reached a low of 890 in 1980. Since then, SAT scores have risen slightly to the current average of about 900. Numerous other tests of the education abilities of high school seniors by independent groups (National Assessment of Educational Progress, National Endowment for the Humanities, and the International Association for the Evaluation of Education) have also shown a serious decline in the quality of public education over the last 30 years.

Increased Costs

Accompanying the decline in the quality of public education has been a dramatic increase in the cost of public education. Since World War II, real spending per public school student has increased 40 percent *each* decade, and has gone from about $1,000 per student in 1945 to over $5,000 per student in 1990 measured in constant dollars.

Rising teacher salaries have contributed to the increased cost of education, rising from $12,000 to $35,000 in real dollars between 1945 and 1990, about twice the growth rate of average national incomes. And public school teachers' benefits have increased even faster than their salaries. From 1975 to 1985, teacher salaries rose by 10 percent in real terms, but real fringe benefits *doubled.* Benefits now contribute an additional 25 percent to teachers' average after-tax income. The increases in teachers' salaries and fringe benefits have largely coincided with the increased unionization of teachers, 90 percent of whom are now in teacher unions.

Teachers' salaries are not the real problem, though. The largest contribution to the increased costs of public education has come from the growth in the administrative sector of public schools. Administrative employment has grown far faster than instructional employment and has significantly increased educational expenditures to finance an expanding administrative bureaucracy. For example, between 1960 and 1984, the number of nonclassroom personnel grew almost 600 percent, nearly ten times the growth rate of classroom teachers. The number of nonteaching, administrative employees (46 percent of total) is now almost equal to the number of classroom teachers (54 percent of total) and continues to grow.

Consider the following cases of bloated public school administration. The Chicago Board of Education, which has 3,300 employees, is larger than the *entire* Japanese Ministry of Education. The New York City public schools system has *250 times* as many administrators as the New York Catholic school system (6,000 administrators in public school system versus 24 in Catholic school system), even though New York public schools have only four times as many students as the Catholic schools.

Administrative costs have exploded since World War II as the number of school districts has declined, from over 100,000 districts in 1945 to fewer than 16,000 in 1980. As school districts have consolidated and grown in size, they have become increasingly bloated—more top-heavy, more bureaucratic, more centralized, less efficient—and more costly to administer.

Doomed to Failure

American public schools are failing miserably. They suffer from the same underlying structural flaws that make all socialist programs eventually fail—*protection from competition and insulation from failure.* Socialism is a defective theory, and any system based on socialist principles will fail, whether it is an entire economy or a single program. Socialism failed in East Germany and the Soviet Union and it is failing in the American public education.

Since public schools have (1) an effective monopoly on education and (2) the government as their source of funding, public education is insulated from competitive

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

market forces. Undisciplined by profit and loss accounting, public schools have no incentive either to operate efficiently or to cater to their customers. In contrast to private firms which are forced to serve the needs of their customers or go out of business, public schools can ignore their customers because they are protected from failing by the deep pockets of the American taxpayers.

In fact, operating efficiently and cutting costs undermine and sabotage the agenda of the entrenched public education bureaucracy, because operating efficiently will lead to a reduced budget. Perverse incentives are in place to guarantee failure—the worse public education is, the more money and resources will be budgeted to try to solve the education "problem." Given the political framework, it makes sense for the educational establishment to deliver an inferior educational product as a way to attract increasingly larger budgets. In contrast to the private sector where resources are constantly being directed towards the most efficient and profitable enterprises, the public sector diverts resources towards the least effective, most inefficient programs.

In regard to public education, we have seen collectivism in action—a failing, inefficient bureaucracy getting more and more resources—more money, higher salaries, more benefits, more employment. And as public schools become increasingly bureaucratic and politically oriented, they become more and more responsive to the political process and engage in rent-seeking activities to protect their monopoly status. Because the main sources of educational funding are state and federal governments, political constituencies—politicians, teachers' unions, political parties, and lobbyists—become more important to educators than parents and students. The attention and focus of education is directed away from local concerns towards the political process at the state and federal level.

In addition to the monetary expense of public education, we need also to account for the role that public education has played in the costly erosion of our personal freedom and the costly expansion of Big Government during this century. In the same way that political disincentives discourage educational efficiency, public school educators also have strong disincentives to teach students to think clearly, logically, and independently about economic and political issues. Clear economic thinking and an appreciation of private enterprise would be counterproductive to an agenda of increased funding of public education. If students and parents developed clear, independent thinking as part of public education, they would become increasingly intolerant of inefficient state-run bureaucracies like public schools. They might even demand an end to the public education monopoly.

The diversion of public funds toward an expanding public sector is made much easier if students are subtly influenced from an early age to be tolerant of government solutions and programs. Government schools therefore have flourished and expanded, along with a general expansion of government at all levels, largely because public schools have failed to educate students on the proper role of limited government as set forth in the U.S. Constitution.

Since the early part of this century, the size of the federal government has gradually increased, and is now at a historically unprecedented level. From the birth of the nation in 1776 until the early 1930s, government spending at the federal level never exceeded 3 percent of national income except during periods of war. Since the 1930s, spending by the federal government has steadily increased and has now reached 30 percent of national income. State and local government spending has also increased, from 7 percent of national income in 1930 to 12 percent in the 1990s. When we take into account the further burden of complying with government regulations and time spent filing tax forms (5.4 billion man hours), the total cost of government to society is more than 50 percent of national income. The average American now works from January 1 until July 10 every year to pay for the total cost of government.

The failure of public schools to educate

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

students effectively has contributed to the increasing role of government over the last 60 years. The expansion of the public sector and the "stranglehold of the political power over the life of the citizen" has largely coincided with the increased bureaucratization, politicization, and unionization of public education. It may have been impossible for government to expand so rapidly over the last 60 years *without* a public education system to subtly desensitize students to the growth of the state and the erosion of personal freedom.

As Leonard Read of The Foundation for Economic Education pointed out years ago, people will never give up their freedoms all at once. However, they will be rather indifferent about losing their freedom gradually over time, as we have seen happen in this century. To explain this phenomenon, Read used the analogy of boiling a frog in a kettle of water. If you boil the water first and try to throw the frog in the kettle, it will immediately jump out as soon as it lands on the water. However, if you put the frog in a kettle of cold water and heat the water up slowly, the frog will slowly cook to death before it realizes what is happening.

Likewise, the growth of the welfare state and the erosion of freedom have happened so gradually over the last 60 years that most people have not even realized that it has happened. As a society, we would never have allowed federal government spending to expand from 3 percent to 30 percent of national income in one year, but we have tolerated that expansion of government over a 60-year period. Part of the reason we allowed this to happen is that we became immune in public schools to the gradual loss of freedom and accompanying growth in the government. The doctrine of state supremacy is subtly woven into the inculcation of students by statist, unionized, civil servant teachers who have incentives to perpetuate and expand the role of the state and public education.

We need to break the "stranglehold of political power" over our educational system by introducing parental choice, competition, and market solutions in education. Contrary to public opinion, education was largely supplied by the private sector from the 1700s until the first few decades of the 1900s. Schools were small, local, and private, and were forced by competition to be responsive to students and parents.

The private sector would deliver world-class, first-rate, superior education in America once the stranglehold of the "educational octopus" is broken. Innovation and experimentation in education would be encouraged in a competitive educational marketplace. Parents would have the same diverse choice in the educational marketplace that they now have when arranging for music lessons, karate instruction, or swimming lessons. In a competitive educational environment, private schools and public schools would be forced to serve the public interest or they would go out of business. Consumer sovereignty would reign once again in the educational marketplace. Costs would decline and quality would improve.

Through education and training we develop skills and abilities to improve our human capital, which is our investment in the future. The productive capacity and standard of living of a country depends on the quality of human capital available. Therefore, there is no more important responsibility than the education of our children since this is our investment in the most important resource of all—human capital.

There is no surer way to *guarantee* that our children continue to receive an inferior education than to continue educating 90 percent of our children in the public school system. Education is far too important a responsibility to leave in the hands of a government bureaucracy whose monopoly status allows it to be insensitive and unaccountable to parents and students.

Public education is a bad investment in human capital. We need to break the stranglehold of the "educational octopus" before it is too late. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Austrians vs. Monetarists: Who's Right About Hayek?

". . . neither author gave much attention to Hayek's *Prices and Production*. It is just as well. The book is obscure and incomprehensible."

—Professor Allan Meltzer, Mt. Pelerin Society meeting Cannes, France, September 27, 1994

The late Friedrich A. Hayek founded the Mont Pelerin Society in 1947 in an effort to regenerate support around the world for free markets and free minds after the war. His contribution to economic and social thought was the subject of the society's meetings in Cannes, France, last September. Henri Lepage, the conference organizer, did a marvelous job paying tribute to the society's originator.

A major debate developed at the conference between the Austrians (followers of Mises) and the Monetarists (followers of Friedman) regarding Hayekian economics. Allan Meltzer, the highly respected monetarist at Carnegie-Mellon University, applauded Hayek's emphasis on uncertainty, the costs of information, and the concepts of coordination and spontaneous order, but rejected out of hand the macroeconomic model and business cycle theory Hayek developed in *Prices and Production* in the early 1930s. "The book is obscure and incomprehensible," he declared.

His remark reminded me of Keynes's brusque dismissal of *Prices and Production*: "one of the most frightful muddles I have ever read" and a "thick bank of fog."[1]

After his presentation, I talked to Professor Meltzer and asked him when he had last read *Prices and Production*. "Years ago," he replied. I suggested he needed to read it again. Far from incomprehensible, I find Hayek's little volume clear and profound. And, in the next generation, it may well come out of obscurity. According to Stephen Kresge, editor of Hayek's works, a new edition of *Prices and Production* is scheduled to be published by the University of Chicago Press in the near future.

In Defense of Hayek

It's great to learn Hayek's breakthrough book will again be in print. In my paper, "I Like Hayek," I extolled the virtues of Hayek's *Prices and Production*. Recently, I purchased a first edition, paying the princely sum of 350 pounds sterling. Did I overpay? Not at all. Hayek's model forms the basis of a new macroeconomics that is far superior to the Keynesian, Monetarist, and Marxist models currently in vogue. I believe Hayek's first edition will soon be worth substantially more than a first edition of Keynes's *General Theory*.

In two of my books, *The Structure of Production* and *Economics on Trial*, I resurrect the Hayekian model, transform it into a useful four-stage model, and bring it up to date with empirical data. In fact, the four-stage Hayekian model acts as my principal forecasting model.

Among the many models used to forecast the economy and the financial markets, I believe that Hayek's theory is in large mea-

Mark Skousen is an economist at Rollins College, Winter Park, Florida 32789, and editor of Forecasts & Strategies, *one of the largest investment newsletters in the country. For more information about his newsletter and books, contact Phillips Publishing Inc. at 800-777-5005.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

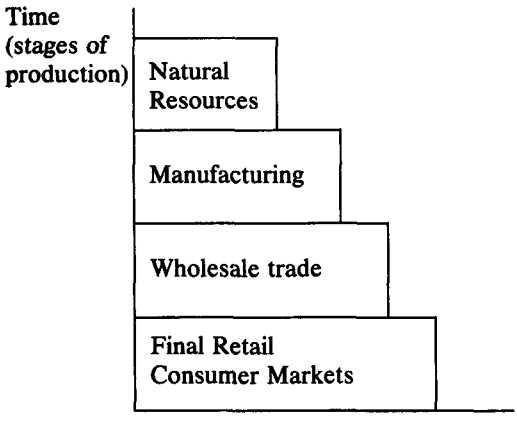
sure the right kind of model. As an applied financial economist, I use Hayek's model on a regular basis to predict the direction of inflation, output, and the prices of financial assets, including which country funds to invest in. Of course, it is not the only ingredient I use to forecast the business cycle, but it is always an important consideration. The model does an excellent job of explaining the recent boom-bust cycles in the United States and Japan.

The Austrian model offers a highly practical picture of economic activity, one that the layman or businessman can easily relate to. Based on Hayek's diagrams in *Prices and Production* (known as Hayekian triangles), I have developed a four-stage model to analyze the economy and forecast trends (see figure).

Time and Money

This four-stage model offers a straightforward view of the economic process. My students call it "Skousen's stairs," because it looks like four steps. The vertical axis represents "time" and the horizontal axis represents "money." As Roger Garrison points out, time and money are the building blocks of a basic macroeconomic model.[2]

As the diagram demonstrates, all goods and services pass through a series of production processes, from raw commodities to usable consumer products, whether it be shoes, computers, or food on the table. Value is added at each stage as the inputs are transformed and moved along toward the next stage, moving closer and closer to the final retail market. Sir John Hicks recognized the common-sense approach of this Austrian model: "The concept of production as a process in time . . . is not specifically 'Austrian.' It is the typical businessman's viewpoint, nowadays the accountant's viewpoint, in the old days the merchant's viewpoint."[3]



Source: Mark Skousen, *The Structure of Production* (New York University Press, 1990), p. 171, and *Economics on Trial* (Irwin Professional Publishing, 1991, 1993), p. 35.

In teaching this Austrian model, I find that students of business, accounting, marketing, and engineering relate to it right away. It is a logical approach, confirming that the purpose of all economic activity is to take unusable, unfinished "inputs" and transform them into more useable, finished "outputs" with the ultimate aim of satisfying the wants and needs of consumers. The factors of production—land, labor, and capital—work together to bring this about. Thus, we see in this diagram that the capitalistic system is not only competitive but cooperative as well, an often-overlooked characteristic.

The four-stage model of the economy can also be used to demonstrate a correct version of Aggregate Supply and Aggregate Demand, which are inaccurately portrayed in today's textbooks. It can show how macroeconomic equilibrium is achieved, how economic growth takes place, and how macroeconomic disequilibrium creates a business cycle. (See chapters 7–9 of *The Structure of Production*.)

It also offers a powerful new way to introduce the principles of microeconomics, the theory of the firm and the role of land, labor, capital and entrepreneurship.

In short, an updated version of Hayek's model forms the basis of an exciting new tool in economics and can serve as the basis of a versatile, fully-integrated model of both micro and macro in economics textbooks. I am working on such a textbook, tentatively entitled *Economic Logic*. Stay tuned. □

1. John Maynard Keynes, "The Pure Theory of Money: A Reply to Dr. Hayek," *Economics 11* (1931), pp. 394, 397.
2. Roger Garrison, "Time and Money: The Universals of Macroeconomic Thinking," *Journal of Macroeconomics* 6:2 (Spring, 1984), pp. 197–213.
3. John Hicks, *Capital and Time* (Clarendon Press, 1973), p. 12.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

BOOKS

The Soviet Tragedy: A History of Socialism in Russia, 1917–1991
by Martin Malia
The Free Press • 1994 • 575 pages • $24.95

Russia Under the Bolshevik Regime
by Richard Pipes
Alfred Knopf • 1994 • 587 pages • $35.00

Reviewed by Ralph Raico

On December 25, 1991, the Red Flag over the Kremlin was lowered for the last time. Yet many of us still find it hard to absorb the fact that Soviet Communism has ceased to exist. It will take some time to get used to the glad tidings. Meanwhile, we are now in a position to begin to answer the question: What was it all about? As Martin Malia, of Berkeley, puts it: "Soviet history is now for the first time really history, and this closure permits us to see the pattern or 'logic' of its life course." Malia does not mince words in his forthright and illuminating book: what Soviet history—"seventy years on the road to nowhere"—was about was *socialism*. The key to understanding the doleful Soviet experience is the Marxist dream: to construct a free and prosperous society by abolishing private property and the market. But that task, Malia asserts, was and is inherently impossible. Releasing a blast of fresh air into the musty, left-oriented field of Soviet studies, he pronounces socialism to be nothing more than an "assault on reality."

Malia stresses the crucial significance of the period up to 1921, later—deceptively—termed "War Communism." As free-market scholars Paul Craig Roberts and Peter Boettke have demonstrated, War Communism was no mere make-shift, occasioned by the Civil War. Instead, *it constituted the Marxist project*: abolition of private property in the means of production, prohibition of exchange, suppression of money, etc. The results were so catastrophic that Soviet power itself was in jeopardy. Hence, Lenin's temporary retreat to a mixed economy with the New Economic Policy, NEP. But NEP was not what the Communists had seized power *for*. With Stalin in charge, the effort to achieve socialism was renewed. The first Five-Year Plan was announced, collectivization of agriculture begun. And terror and famine—already prodigious under Lenin—reached staggering proportions. Malia's figures for the victims of Stalin jibe with those of Robert Conquest and most other scholars of the period: around 20,000,000 dead, from the Ukrainian terror-famine, the Gulag, the Purges, and the ceaseless executions.

Stalinist planning, unlike War Communism, involved money, wages, and prices; thus, it represented a temporary deviation from the socialist ideal. So did the legal private plots and small markets for the peasants, as well as the de facto black market, or "shadow economy." Still, the Soviets were able to achieve real success in only one area: military hardware, into which enormous resources were poured. Malia mentions Ludwig von Mises and his argument against socialist planning, and he refers to Peter Boettke's book on the subject. Yet he seems unaware that this was the very heart of the matter, the essence of socialism's impossibility. As Mises showed, rational economic planning cannot take place in the absence of prices for producer goods, and no such prices can arise where all producer goods are owned by the state. Hence, the constant lurching from one economic program to the next, always with the same result.

Malia is particularly harsh on the band of Sovietologists, who, for the most part, apologized for the Soviet system. It represented, they averred, merely a variant form of modernization, one which had proved, by and large, successful. They banned the term "totalitarian" from discussion, as fueling the Cold War. As for Stalinist terror, it was an aberration. Some professors even mini-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mized the number of victims to the point where, if they had been writing about the Holocaust, their works would have been banned in half a dozen democratic countries. When Khrushchev boasted of overtaking the United States by 1970, Western media like *The New York Times* and *Le Monde* took him seriously. Similarly, up until the moment it fell, East Germany was rated an economic success by many Western economists and journalists.

Gorbachev understood that the shabby socialist economy was incapable of sustaining a world power. Perestroika was introduced, and with it glasnost, a limited opening up of channels of criticism. Glasnost proved suicidal. The surrealism of Soviet society could not survive the light of criticism. Inevitably, the ideological house of cards erected by the Party propagandists and disseminated by foreign fellow-travelers over seven decades collapsed.

In 1989—that marvelous year—the Red regimes toppled one after the other. In the Soviet Union, the ruling class lost faith in its right to rule, and with it "the will to coerce."

Today Russia is in an incomparably worse position than, say, Spain after Franco, or even West Germany in 1945. Despite dictatorship, civil society in those nations had never been pulverized, as it had in Soviet Russia. Above all, the principle and values of private property had been more or less preserved. In Germany, an inspired leader like Ludwig Erhard could build a new market economy on the basis of what had survived. In Russia, three generations of Communist rule, as Malia points out, annihilated civil society and created a vacuum. An "envious egalitarianism" and the vilification of all money-making as "speculation" are rampant. Malia's pessimistic prognosis for Russia, unfortunately, rings all too true.

There are minor but surprising errors: Malia confuses the German socialist Karl Liebknecht with his father Wilhelm and the Franco-Russian Alliance with the Triple Entente, misquotes the first line of the "Internationale," and states that Franco was aided by Germany and Japan, rather than Germany and Italy. More seriously, he adheres to the outdated interpretation of the Industrial Revolution, whereby the masses impoverished by industrialism were only rescued by labor unions and a mysterious "safety-net" (which did not exist until decades after workers' living standards had risen in all Western countries). Most strangely of all, Malia states that classical Marxism "had not made a central and explicit issue of the anarchy of market"—an interpretation directly contradicted by well-known passages from Engels' *Anti-Dühring* and other classical Marxist works. All in all, however, this is an excellent work, and a much-needed antidote to dozens of apologias for the Soviet regime.

Richard Pipes' *Russia under the Bolshevik Regime* takes a different approach. This sequel to the Harvard historian's *The Russian Revolution*, completes the trilogy he began some twenty years ago with his *Russia under the Old Regime*. The book covers the period from the outbreak of the Civil War to the death of Lenin (1918–1924). Some interesting new material recently retrieved from Russian archives is included, and some stimulating ideas are advanced. Pipes suggests, for instance, that the attraction felt by so many Western intellectuals for the Soviet regime is traceable to the fact that it was the first government since the French Revolution in which intellectuals like themselves—Lenin, Trotsky, and the rest—held the reins of power. Thus, "in Soviet Russia, intellectuals could expropriate capitalists, execute political opponents, and muzzle reactionary ideas."

But Pipes' work suffers from a fundamental flaw. Consistently with his previous views, he states that ideology was merely a "subsidiary factor," one that neither "determined [the Communists'] actions," nor "explains them to posterity." Traditional Russia, not Marxism, is the key to understanding the regime's history, because "nowhere in the West has Marxism led to the totalitarian excesses of Leninism-Stalinism." Here Pipes overlooks the small fact that, in the West, socialist parties *abandoned* Marxism, starting with the German

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

SPD after the First World War. And how explain Bolshevik discipline and fanaticism— crucial to seizing power and winning the Civil War—without Bolshevik ideology? How explain the final relinquishing of power, without the fading of faith in Communism in the ruling class? In fact, contrary to Pipes, the Soviet experience taken as a whole is a classic illustration of the Misesian philosophy of history: in the end, it is ideas that, for good or evil, rule the world. □

Dr. Raico is professor of history at the State University of New York College at Buffalo, and the author of Marxist Dreams and Soviet Realities, *published by the Cato Institute.*

Classics in Austrian Economics, 3 volumes

Edited by Israel M. Kirzner

London: William Pickering and Chatto Publishers, Ltd., 1994 • xxxii + 355 pages; xx + 340 pages; xviii + 312 pages

Reviewed by Peter J. Boettke

When Carl Menger published his seminal book on economic theory in 1871 he established a tradition of economic scholarship that is still attempting to come to terms with his revolutionary insights into human action and the exchange process. As Mises reports in *Notes and Recollections,* it was upon reading Menger's *Principles* that he became an economist. From 1871 to the 1930s, this was figuratively true of all those within the Austrian School of Economics, including such well-known economists as Eugen von Böhm-Bawerk, Friedrich von Wieser, Franz Čuhel, Richard von Strigl, Hans Mayer, Paul Rosenstein-Rodan, Gottfried Haberler, Leo Schönfeld, Fritz Machlup, Oskar Morgenstern, and, of course, F. A. Hayek. The 1930s, however, saw the destruction of the intellectual base for the Austrian School of economics, Vienna, as most of the remaining scholars within the tradition fled Austria to escape Hitler. Haberler, Machlup, and Morgenstern launched successful academic careers in the United States at Harvard (Haberler) and Princeton (Machlup and Morgenstern). However, their Austrian roots—while forever present —were not emphasized in their economic scholarship during their professional period in the United States. Mises and Hayek, of course, continued to refine the Austrian tradition with their brilliant work on the trade cycle and on the problems of socialist economic and political organization, as well as their work on the philosophical foundations of economic science. But, by the late 1930s, early 1940s, the Austrian School of Economics was thought to be either fully incorporated into the mainstream or soundly defeated in scholarly debate. This assessment has been subsequently proven wrong on both counts.

One of the difficulties with the Austrian tradition was plainly and simple *translation* difficulties. For example, Austrian capital theory formed the core of both the trade cycle theory and the critique of socialist calculation, yet economists trained in the English-language tradition did not see the point of the Austrian notion of a time structure of production, and therefore, were not particularly impressed with the Mises-Hayek demonstrations of either the problems with malinvestment caused by monetary manipulation or the inability of socialist planners to rationally calculate the alternative use of scarce capital goods amongst various investment projects. Certainly during the period between 1940 and 1970 there were some prominent theorists who argued against inflationary monetary policy and the advance toward socialism, *but they did not base their argument on the reasons associated with Austrian economics.*

In the 1970s that was to change. First, in 1974 Hayek won the Nobel Memorial Prize in Economic Science, which brought with it renewed attention to the economic theory, as opposed to political theory, work he had done in the 1930s and 1940s. Second, beginning in 1973, Israel Kirzner had started a resurgence of interest in the Austrian theory of the market process with his seminal *Competition and Entrepreneurship.* Kirzner also worked to establish an Austrian Eco-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

nomics Program at New York University, which supported both post-doctoral scholarship and student training in the Austrian tradition—the first institutional home for Austrian School scholarship since the 1930s.

Kirzner was a tireless champion for the Austrian cause. Since then he has published four additional works and edited two other collections of articles in the Austrian tradition. Now, he offers us a three-volume "sampling of a tradition"—as the subtitle states. *Classics in Austrian Economics* includes contributions to economic scholarship made by all the individuals I listed above beginning with Menger. Volume 1 is devoted to the early contributions. Some of the chapters are available in other works, such as Menger's *Principles* or Böhm-Bawerk's *Capital and Interest,* but many are not. In fact, as is the case with all three volumes there are original translations from the German that were produced for this project.

Volume 2, which covers the interwar years when Austrian economics flourished as a scientific body of thought, includes the an original translation of the classic paper by Hans Mayer on genetic-causal explanation within economic science. In addition, Richard von Strigl's discussion of the relationship between economic theory and economic policy is translated.

Volume 3 is devoted to the age of Mises and Hayek and contains many of their seminal articles on methodology, money and capital theory, and the nature of the market process (including the critique of socialism). Israel Kirzner must be thanked for bringing together such a fine "sampling" of the Austrian tradition. The price of the volumes (around $300) will preclude individual consumption of these volumes . . . that is too bad, though understandable given the publisher's purpose in producing this volume, which is to supply the reference market within libraries. But, it would be good if word-of-mouth advertising helped the publisher place these volumes in as many libraries as possible.

Not only did Kirzner organize this project, but he provides substantive introductions to each volume. His introduction to volume 1, for example, is quintessential Kirzner. With careful scholarship, Kirzner demonstrates the unity between Menger's vision of economic science as emanating out of the human choice problem and Mises' project in *Human Action.* Moreover, his history of the rise, fall, and then resurgence of the Austrian School is, I would be tempted to say, worth the price of the book—though given the price of the volumes this market is obviously what we economists refer to as very "thin." Nevertheless, *Classics in Austrian Economics* is an indispensable collection of material for scholars and students committed to serious study of the Austrian tradition. Hopefully, these volumes will make their way onto the library shelves at a large number of universities and colleges so that many will have access to their wealth of material. □

Dr. Boettke teaches economics at New York University.

The Index of Leading Cultural Indicators: Facts and Figures on the State of American Society

by William J. Bennett

Simon and Schuster • 1994 • 138 pages • $8.95 paperback

Reviewed by Wesley Allen Riddle

William J. Bennett, best-selling author of *The Book of Virtues,* has produced another dandy little volume, this one geared towards fast, easy consumption and future reference. *The Book of Virtues* is an implicit companion, if only to indicate what's been missing in our society. *Leading Cultural Indicators*, however, stands alone. Its strength lies in the explicit message of chilling statistics.

Bennett's new book is a compendium of charts and graphs extracted from various government and private research sources

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and is divided into five chapters: Crime; Family and Children; Youth Pathologies and Behavior; Education; and Popular Culture and Religion. There are also appendices on social spending and related economic indicators. The twelve-page introduction is perhaps the best and certainly the most succinct critique yet written on the destructive legacy of the Counterculture.

One of the salient points, easily drawn from data in the book, is that government solutions compound social problems. For instance, the growth of social ills literally parallels the growth in government social spending. While welfare gets 630 percent more money today than in 1960, long-term static dependency has actually increased. Of course, escalating welfare and social spending costs have translated into real tax burdens on working families with children.

The hardest hit are the working poor and the dependent poor themselves. The data indicate that, by co-opting or undercutting individual responsibility, government paternalism not only breeds dependency but depresses the economy and precludes the kind of long-term economic growth that would provide permanent solutions. Indeed, it is clear that the staggering tax burden increases all kinds of stress on families, and many households have simply been unable to survive.

The divorce rate has more than doubled since 1960 and is the highest in the world, although down slightly from its peak in the early 1980s. There is a smaller percentage of households with married couples in the United States today than there has been for two centuries. Nearly one in two U.S. households is headed by single parents or involves some other non-traditional living arrangement. Abortions have skyrocketed since 1972, while one-third of all births in the United States today are out of wedlock. Fully seventy percent of African-American births in the United States are illegitimate. Moreover, the linkage between the breakdown of the American family, poverty, and the incidence of social pathologies is well-established in the data.

Government has failed miserably its primary function of protecting law-abiding citizens from criminals. There has been a more than 500 percent increase in violent crime over the past thirty years. Yet the data show crime increasing and punishments declining both qualitatively and quantitatively. Public toleration, however, must also share the blame. The sad fact of the matter is that many in society doubt they even know basic right from wrong, or if they do, their own self-esteem is so low as to mute public demand for retribution.

Leading Cultural Indicators includes some legislative proposals in the introduction, and while they strive to be "mainstream," rather than representative of a partisan political agenda or particular philosophy, they belie Bennett's own compromise with big government solutions. In each case his solutions may represent improvement in policy over the status quo, but the people only get a more benevolent master. The apparatus of the State *is the problem*, and it is hard to imagine the imposition of federal sentencing guidelines, national educational standards and a national core curriculum, federal tax incentives (conservative social engineering), IRS-directed garnishment of pay for dead-beat dads, and government identification of fathers by Social Security number are the kinds of things that are needed. They offer no long-term solace from Leviathan; worse they are likely to be the wellspring of present and future bureaucratic abuses and myriad government intrusions.

The book does, however, successfully issue a clarion call to concerned citizens. The data are highly useful and indicate that we are a society in crisis. The trends chart a decline of our civilization over some thirty years. Bennett acknowledges that government alone cannot arrest the negative social trends he identifies; indeed, only individual responsibility and appropriate voluntary collective action can do so. We should add that it would be most prudent to do so. □

Mr. Riddle is a faculty member at the U.S. Military Academy, West Point, where he teaches American History.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN

IDEAS ON LIBERTY

Now, more than ever.

The Freeman is the most respected and imitated journal of liberty in America. For more than 40 years it has uncompromisingly defended freedom and the free society. Each monthly issue is packed with readable information on economic matters, commentaries on the latest political follies and the loss of freedom in America, and the biographies of illustrious defenders of freedom—all written with insight, clarity, and wit.

The Freeman publishes wide-ranging essays and book reviews that appeal to people in all walks of life, from high school students to university professors.

Here is what a few of our readers think of *The Freeman*:

"*The Freeman* is the magazine of liberty, lucidity, and brevity."

—Malcolm S. Forbes, Jr.
Editor, Forbes magazine

"*The Freeman* is an economic and political education in itself."

—Mary Pride
Author, The Big Book of Home Learning

"I have been a *Freeman* reader for the past twenty years, and it has had a major influence on my thinking. When there were no other voices defending freedom and the free society, *The Freeman* spoke clearly and convincingly. Its ideas and arguments have influenced countless thousands around the world, and *The Freeman* continues to be an invaluable ally in the fight for freedom. I hope that you will join its quest for the ideal of human liberty."

—Congressman Ron Paul
Former Member of Congress

To receive *The Freeman*, please use the form below to send a tax-deductible contribution to The Foundation for Economic Education. A gift of $30 per year for U.S. addresses, and $45 per year for foreign addresses, will bring *The Freeman* to your door. You may use your credit card (MasterCard or VISA) to fax an order: (914) 591-8910, or call toll free: (800)-452-3518.

Name _____

Street address _____

City _____ State _____ ZIP _____

❑ MasterCard ❑ Visa Card number _____

Signature _____ Expiration date _____

❑ Please check here if this is a new address. Send address changes six weeks in advance.

The Foundation for Economic Education
30 South Broadway
Irvington-on-Hudson, New York 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"The foundation of our national policy will be laid in the pure and immutable principles of private morality, and the preeminence of free government be exemplified by all the attributes which can win the affections of its citizens and command the respect of the world. I dwell on this prospect with every satisfaction which an ardent love for my country can inspire, since there is no truth more thoroughly established than that there exists in the economy and course of nature an indissoluble union between virtue and happiness; between duty and advantage; between the genuine maxims of an honest and magnanimous policy and the solid rewards of public prosperity and felicity."

—GEORGE WASHINGTON
First Inaugural Address, April 30, 1789

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533

Non-profit organization
U. S. POSTAGE
PAID
Foundation for
Economic Education, Inc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED